the Freeman

Ideas on Liberty

JANUARY 1974

On "USING" the Government

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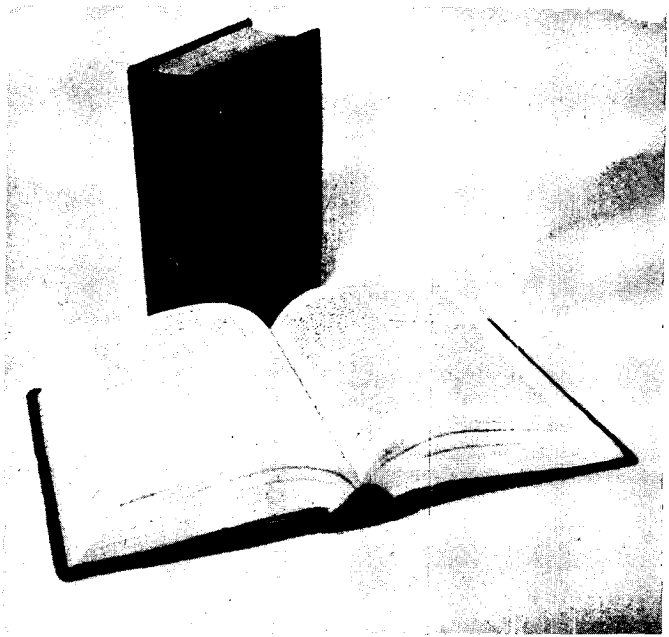

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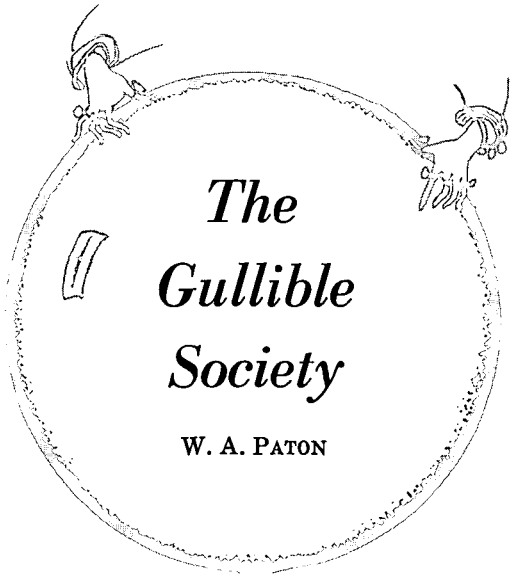

The Gullible Society

W. A. PATON

THERE IS some justification for saying that this is an age of reason in the physical sciences and engineering, but in the realm of economics it is a time of well-nigh unprecedented folly. Currently many Americans appear to have thrown their stock of common sense to the winds. It is true, of course, that man has suffered acutely throughout most of what we know of his history from superstition, religious quackery, tyranny, and fallacious notions about his physical environment. Although the only form of life on the planet capable of careful scrutiny and pondering with respect to himself and his surroundings, Homo sapiens has often proved to be an easy mark for the witch doctor, the soothsayer, the spell-binder, and other nonsense peddlers. But I doubt if at any earlier period were people generally so susceptible to economic pipe dreams and pie-in-the-sky proposals as we are today. If we don't go beyond American history the case is clear.

Our forefathers, at no stage, would have widely accepted the view that the road to prosperity, the abundant life for all, is by way of blocking early entry to the working ranks, an enforced 40-hour — or less — work week, with the trimmings of minimum wage laws, paid vacations, featherbedding and soldiering, and retirement with a handsome pension

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after thirty years of service, coupled with a program of government handouts on a vast scale to those unemployed for almost any reason or excuse. They were addicted to hard work, recognized that we can't consume what we don't produce, and were skeptical of all schemes to pick ourselves up by our bootstraps. And they would be shocked by today's widespread tide of vandalism, violence, and disorder, which is becoming a serious obstacle to efficient utilization of available resources and increasing – or even maintaining – the level of economic output.

It should also be noted that the astrologers, fortunetellers, seers, gurus, ESP experts, and assorted cult leaders – as well as the economic con men – are flourishing these days.

In short, as an adjective to describe present-day attitudes, aims, and popular proposals for dealing with current economic problems, real or pseudo, the term "gullible" is a much more appropriate label for our society than "good" or "great."

Contributing Changes

There are explanations and excuses for the current state of economic confusion aside from the persistent streak of susceptibility to humbug to be observed in mankind. To refer again to the American scene, the fantastic changes in economic conditions and methods that have occurred in a few generations – often pointed out and also often forgotten – have undoubtedly contributed heavily to present-day misunderstanding and blindness regarding fundamental principles and requirements. The tremendous increase in production and standard of living resulting from the pioneering spirit, an excellent endowment of natural resources, and the technological surge, has beguiled many into thinking that the sky is the limit, that the well will never run dry, that all that is necessary to secure an abundance for everybody is taking from the haves and giving to the havenots, that hard work and slow saving are outmoded.

A partial explanation of the willingness to accept economic programs that are largely poppycock is also found in the growing complexity of the economic structure, with its network of markets, elaborate fabric of banking and related facilities, multitude of business organizations, corporate and otherwise, and so on. Even in my boyhood days the state of the economy was so simple, with the family farm still a dominant feature, that there was less excuse for becoming befuddled as to the basics of economic behavior. In

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those days we all knew that we had to work and produce to live.

A sidelight that perhaps should be noticed is the availability of improved communication facilities. One of the great wonders of our time, surely, is the development of means making possible virtually instant communication to everybody, everywhere. But our radios and TV sets can be used for spreading folly as well as enlightenment, and the proponents of economic nostrums have not neglected to take advantage of this fact. Back in 1896, when William Jennings Bryan first ran for president, he made a great impact with his wonderful voice and oratorical skill, although his "free-silver" monetary program was sheer tommyrot. If he had had the radio at his command – as did Franklin Delano Roosevelt in presenting his "fireside chats," likewise largely nonsense – he might well have won the election.

These few comments, obviously, are an inadequate account of the factors which have resulted in the shift in points of view and the growth of economic illiteracy in the past sixty to seventy years. They leave largely unanswered the crucial question: why have the majority of our citizens become willing to support and accept an array of socialist programs, while still giving lip service to the concept of an economy featuring private enterprise and a system of free markets? I have a few suggestions to offer that have a bearing on this phenomenon.

The Great Delusion

The outstanding delusion with which Americans have become afflicted, and which also plagues a host of our contemporaries in other countries, is the belief that economic problems can be dealt with most effectively by turning them over to the machinery of government. Indeed this belief in the power of government has become so embedded in many minds, throughout our population, as to constitute an article of faith, so to speak, to be taken for granted, immune to critical examination. And this delusion is also our taproot folly, the fountainhead of unsound views and policies. Upon close scrutiny it will be found that most of our misconceptions in the economic field, and the specific proposals and programs that promise what they can't deliver, are rooted in the almost mystic view that resort to the apparatus of government is the ultimate solution for all economic difficulties and ailments.

The hold that this delusion has upon us is rather amazing in view of the historical record, and the very obvious limitations inherent

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in government. Any form or level of government is implemented by one or more human beings who has either seized power, by one means or another, or been granted power by some process in which at least some of the folks to be governed have participated. There is nothing mysterious or supernatural involved. The person or persons functioning as an arm of government—the people that make up any bureau, commission, department, court, cabinet, city council, and the like or fill seats in such bodies as our national and state legislatures—don't take on heroic proportions, don't become supermen, simply by putting on the governmental mantle. At the best they are conscientious individuals trying to carry out the duties that presumably go with their positions. At the worst they are tyrants and crooks interested only in power for what they can get out of it, or fanatics and messiahs obsessed with the notion that they have the right to rule and know all the answers.

A Sorry History

The history of all forms of government to date is a sorry one. Governments generally have been inefficient, bloody, lacking high moral standards, and not dedicated to the best interests of the governed group. But a common human failing is the tendency to put on dark glasses when it comes to the lessons that history might teach us.

Having power is a ticklish assignment, in any activity, and restraints are required if those with power are to be kept within bounds. Our founding fathers understood this, and fashioned a remarkable governmental structure, designed to keep both kings and mobs at bay, and to be restricted to a limited set of controls and functions. They would certainly be appalled if they could take a look at the sprawling octopus of coercion that has developed, with tentacles of authority reaching in all directions.

The central concept that is so widely overlooked is that government, like other institutional arrangements, should be regarded as a specialized instrument, not a do-everything mechanism. The intrinsic function of government is to serve as the domestic policeman and to resist aggression from outsiders. And if the world were peopled exclusively by individuals wholeheartedly committed to respecting the rights of their fellow men, coercive government might well fade away to the vanishing point. In the prevailing state of affairs I grant the need for some government, but it would be a blessing if this necessary appa-

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ratus would tend to its knitting, not butt into the business of raising potatoes or building automobiles – to say nothing of going to the length of becoming guardian and guide over all our personal activities and welfare from the cradle to the grave.

Moreover, as government becomes overextended, takes on the role of Jack-of-all-trades, it tends to become increasingly inefficient. Anyone who has had any considerable experience in governmental control and operation of business knows very well that this is the case. No government agency is free from the political influences that tend to thwart attempts to improve methods and procedures. Lack of planning, inflexibility, waste, delay, are familiar features throughout government, at all levels.

There is also an inherent tendency for those in government business, even if well intentioned at the start, to become increasingly indifferent to their clients or customers. The history of the U. S. Post Office affords a notorious example. And as citizens become accustomed to the faults of government service, and to the obstacles in the way of making complaints felt, they gradually learn to put up with bad treatment, to take their lot for granted, to lose their inclination to resist.

It should also be noted that government interference in business operation, even if stopping short of a complete take-over, has the unfortunate effect of putting a damper on the initiative and ingenuity of owners and managers, and their technical staffs. An outstanding illustration is afforded by the long history of blundering in the regulation of our railway system.

Our Socialist Trend — Why?

But in spite of the plain evidence of government incompetence all about us, and the chilling impact of government interference and regulation on private initiative, many Americans – including a lot of folks who should know better – clamor for more of the same. Why have we become so benighted? Why do we believe we can have our cake and eat it too? Why is there so much fence straddling, often without awareness? I'll attempt a brief answer to this query.

First, let's take note of the efforts of the dedicated and persistent Fabians and Marxists who have long been in our midst. When I began systematic study of economics back in 1912 at the University of Michigan, there were a few avowed socialists on the faculty, and a sprinkling of their like in the student body. These

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people were not taken very seriously, however, by most of the campus population, and were certainly not regarded with great anxiety, as a possible menace to our way of life. But these advocates of the socialist state were indefatigable in efforts to spread their brand of gospel, and may have had some impact, at least as seed sowers. And perhaps they laid a groundwork that later on facilitated the growth of a swarm of procommunists, fellow travelers, and assorted "anticapitalists," bent on destroying the American system of government and private business enterprise.

Although capitalism has often been accused of fostering armed conflict between nations, the fact is that a condition of war is incompatible with a free-market economy. War inevitably expands the authority of central government and puts a brake on individual initiative and decision-making. It seems very clear that our participation in World Wars I and II, and subsequent serious military involvement in the Far East, plus the overhanging fear of armed conflict and resulting vast "defense" expenditures, is the major explanation of the growing subservience to government power that we have been experiencing. And in between the two great war efforts, and in part induced by postwar turmoil and adjustment, came the "Great Depression" of the early 1930s, and the resulting programs for relieving distress, of which President Roosevelt was the master architect – programs that failed so miserably as to encourage said architect to push us into a second tremendous military adventure.

In view of this history, indeed, the great expansion of the mechanism of government, and the encroachment of government into the processes of both production and distribution throughout the economic pipe line, is hardly surprising. Perhaps the wonder is that we still have some vestiges left of a free society.

A Weak Defense

The defense of economic liberty, too, has been feeble and ineffective. Especially from the depression days on, the teaching of economics has been increasingly socialistic in most colleges and universities, taking the form of either downright condemnation of business and the market system or damning capitalism with faint praise. Religious leaders generally, never too well-disposed to private enterprise, have also become more aggressive with their half-baked attacks on American business. And many journalists and writers, growing up in war and

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depression days, have joined in the chorus of criticism. Even business executives, nominally supporters of economic freedom, have made a sorry showing. I find it hard to forget the way business leaders generally rushed to get on the bandwagon in the days when the effort was made to establish synthetic socialism, almost overnight, through adoption of the NIRA codes. Happily this effort failed because of a decisive ruling of the U.S. Supreme Court of that time. But many business leaders, with a seeming lack of clear comprehension of the essentials of a market economy, still participate in sawing off the limb they are sitting on while continuing to prate about "our system of free enterprise."

Perhaps it should also be noted that the socialist trend in America in the last few decades has been disguised as a great humanitarian movement. We have been making the trek into socialism under the banner of assorted welfare programs, caring for the ailing and unfortunate and the needs of "senior citizens," guarding the interests of consumers, conserving natural resources, cleaning up the environment, and so on. Even at this stage an avowed socialist or Marxist couldn't be elected president in the United States, but a clever chap who promises that government will control the bad boys in business, and see that we are all well-housed, well-fed, and have an adequate standard of living in other respects, and be our protector, counselor, and guide in all our activities, may well make it.

The current outlook is rather bleak from the standpoint of those who believe that individual initiative and responsibility are characteristics worth preserving in our society. But it's still important to keep the leaven of that point of view alive in the loaf.

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IDEAS ON LIBERTY

The Constitution of Liberty

THERE can be little doubt that man owes some of his greatest successes in the past to the fact that he has not been able to control social life. His continued advance may well depend on his deliberately refraining from exercising controls which are now in his power.

FRIEDRICH A. HAYEK

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The Voluntarist's Role

RIDGWAY K. FOLEY, JR.

THE COMMITTED LIBERTARIAN abides on at least two levels. Initially, a practitioner of freedom must understand that which he practices. We never cease being students of liberty. No one can truly say that he has fully mastered the art, for the process appears to be an ongoing endeavor. Self-understanding of freedom represents an obligation which cannot be fulfilled, even with a lifetime of effort. The role of the free market, the concept of limited government, the ideal of individual freedom and initiative in a voluntary society, all command attention to their myriad applications in day-to-day living.

Nevertheless, seminal mastery of the idea of liberty impels recognition of a second-level enterprise: implementation of the freedom ethic. At this level of development, the voluntarist[1] has gained sufficient maturity and knowledge to enjoy a partial command of his subject; he now quests for ways and means of branching forth, of inculcating like beliefs in other individuals in the hope that practice will replace theory in our world.

An immediate problem confronts each of us as we emerge from the cocoon of internal analysis to the incipient butterfly of action – we are outnumbered, we are outflanked, and we face a plethora of brush fires scorching what precious little freedom remains to us. Too often the tendency is to throw up our hands in horror, bemoan the lack of full-time "freedom fighters," and drop out of the fray.

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[1] I use "libertarian" and "voluntarist" interchangeably to mean one committed to the precepts of individual liberty briefly noted in the opening paragraph.

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Such a reaction should not surprise anyone, for we perceive attacks on liberty on all fronts. Reflect briefly on a few. The Bank Secrecy Act of 1970 commandeers the allegedly private but actually publicly controlled banking system into full-time espionage by requiring all banks to microfilm and preserve copies of all of our checks for governmental inspection and use. Now, if a private citizen or entity undertook such a project to build a dossier on every citizen in the nation, or if the FBI pursued such a course of conduct without court authority, the hue and cry of "police state" would ring in our ears; yet, when a benevolent government deals thus with its citizens in the economic realm, scarcely a bleat is heard above the din of approval. Nevertheless, one cannot imagine a more virulent excursion into personal rights; whose business is it if I write checks to FEE, or to the IRS, or to the local massage parlor? Not the state's business, to be sure!

Laws Against Gold

Again, consider the legislative norms and executive decrees which coalesce and prohibit American citizens from owning gold.[2] Perhaps a case might be made for inhibiting certain individuals with proven dangerous propensities from possessing instruments of destruction, like hydrogen bombs, plastic explosives or M-1 rifles. No such case exists for depriving anyone from converting the value he has created into any form he desires: gold, tobacco, wampum, or Hershey bars. Some befuddled economist named Keynes once labeled gold a "barbarous relic"; that act provides no reason to prohibit me from seeking refuge in a metal which I believe constitutes a store of value in these perilous economic times. The voluntarist believes that the creator of value ought to be able to spend, save, or waste that value in any way he sees fit, so long as he does no harm to others exercising an equal and reciprocal freedom. Only the possessor can assimilate and reflectively act upon the myriad bits of information which integrate into making the decision of the best choice for the actor under the circumstances.

Protectors of Consumers

Another petty coercion appears in the self-styled knights-errant who pose in the garb of protectors of the consumer. The Nader-like "public interest research groups" (PIRG's), which proliferate like rabbits, offer an apt example. Now,

[2] See Holzer, Henry Marsh, "How Americans Lost Their Right to Own Gold —and Became Criminals in the Process," 39 *Brooklyn Law Review* 517-557 (1973).

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I normally feel competent, as a consumer, to decide what I wish to purchase; at the very least, I possess adequate acumen that if I try a bar of Grandma's Lye Soap and discover that it is not up to snuff, I usually have little difficulty in dissuading myself from identical future purchases. A like-minded citizenry, operating on choice rather than coercion, will see to it that Grandma's Lye Soap goes out of business if it fails to produce desirable results. This vote — the dollar vote — represents the true key to economic democracy. Only producers who offer something of value desired by purchasers will continue to operate. The inefficient or incompetent producer will exhibit only a warehouse of unsold lye soap for his effort.

PIRG's arouse my animosity not because of their ends, some of which are laudable, but because of the means used to achieve those ends.[3] PIRG's seek to warn consumers of frauds and deceptions. While doubting that such unofficial alarm systems operate very effectively and efficiently, few men of good will condone force or fraud in any guise, and all cheer efforts to allay such practices. But PIRG's invite rational attack because their very means are coercive and deceptive: most are funded by monies extorted from other individuals (often nonconsenting students merely seeking an education at state-supported institutions of higher learning) or taxpayers who do not agree with the ends sought, the means employed, or who simply want to exercise their own right of free choice. No libertarian can consistently deny the right of others to band together for protection against fraud; he can take umbrage at being mulcted to support their activities.

Safety Glasses

Can our sensitivities stand yet another example? The Safety Optics Act represents Congressional and bureaucratic usurpation of private rights to the nth degree. All eyeglasses (save a very few) must conform to rigid standards better fit for construction workers or jackhammer operators than for lawyers or housewives. These almost impossible requirements, enacted in the guise of public safety, increase the cost of prescription lenses (needlessly for the aged who generally can ill afford the charge and who seldom engage in hazardous activities), not to mention the time one must forego

[3] Remember Emerson's *caveat:* "The ends pre-exist in the means." See Read, Leonard E., "The Bloom Pre-Exists in the Seed," *Let Freedom Reign* (The Foundation For Economic Education, Inc., Irvington-On-Hudson, New York 1969) 78-86. Nowhere does this warning appear more starkly than in the instant setting.

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needed lenses while his new glasses undergo endless testing. No one challenges the propriety of a party bargaining for strong, glare-treated, shatterproof, crack-resistant eyeglasses on a voluntary basis, but no one should compel another individual to accept only those lenses some person or group thinks "desirable." Risk is a part of living and, contrary to a peculiar statist notion, no one can legislate the risk out of life and produce an entirely wholesome and antiseptic world. Eliminate risk (assuming the possibility), and you have eliminated one element which forms the very verve and vitality of life.

Unwarranted Interferences

Other petty coercions appear hourly on the modern scene. While too numerous to catalog, the aspiring voluntarist can learn to recognize them and to accept these irritations for their true nature. Any time the state, the organized force of society, aids one individual or group at the expense of another individual or group, or inhibits free action of any citizen not engaged in coercive practices, it has overstepped its proper bounds and trampled freedom in the process. Every subsidy, every restraint of free trade, every inhibition on personal voluntary action, every censorship, and all other rules of that ilk, demand condemnation precisely because they represent irrational and immoral interferences with the sacred life given to each human being.

The existence and proliferation of these mighty and petty ravages of freedom typically impel the second-stage volunteer to one of two courses of conduct. Either he laments his case as hopeless and hides himself into seclusion (the passive reaction), or he "rails against folly,"[4] peripatetically flailing about at real and imagined targets (the active reaction).

The passive reaction mourns the lack of full-time "freedom fighters" to wage battle on behalf of all who love liberty. Yet each of us should commit himself to the fray. We cannot combat by proxy and exhibit the effectiveness necessary to carry the day. Success requires analysis, input and action from diverse individuals and groups, not a canned, one-dimensional, sterile approach.

The active reaction: action. Refuse to comply! Circumvent the law! To jail, if necessary, all to make a point! But to whom would the point be made? To the countless pre-reflective individuals, both within and without the political apparatus? Not likely, for they

[4] See Read, Leonard E., "Railing Against Folly" (unpublished eassay).

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cannot comprehend the meaning connected with the act. A few, if they knew, might understand. The actor, too, would understand and would rest easily with his conscience for he would know that he performed morally by refusing to become a willing participant in coercion. A free man in an unfree world.

The Reflective Reaction

An alternative exists: the reflective reaction: persuasion first of self, then of those roundabout who voluntarily listen, whose thirst for understanding brings them within the ambit of your light. Isn't this more sensible than "railing against folly," than running off in six different directions at once, waiving at poltergeists and tilting at windmills? A cool, calculated and objective approach merits consideration, and, probably, assures a greater measure of success and satisfaction.

By this methodology I do not advocate some mere passive resistance, retiring to a virgin mountaintop where one can think great thoughts. Whilst I remain of philosophical bent, I advocate action, but reflective, effective action. The time is now, the need acute, the task tremendous. We must summon all of our strength, our intelligence, our prayers to the endeavor; but this means convening our energies and employing them in a calculated and rational manner. The engaging little statists who tear about our society can be effectively defanged if individualists keep the faith, improve their own understanding, eschew preaching, exhibit a joyful demeanor, live their lives consistently in accordance with their philosophy, and light a few brush fires of their own along the way. Let us briefly examine these guidelines.

Keep the Faith

First, we must keep the faith. Withdrawal admits defeat. It hides our light from the rest of the world, for the faithless exude poor candlepower. We must believe, truly believe, in our basic precepts and act upon that belief.

Second, each of us must improve his understanding of the nature and philosophy of the freedom doctrine. As noted at the outset, this never-ending task will consume our whole life and dominate our whole being, for no one of us can accomplish perfect freedom even with a lifetime of effort. Reading, thinking, conversing with others of both like and unlike minds will propel us on our way in this regard. Growth represents our goal, for man is a "becoming" creature.

Third, we must avoid the tendency to preach to others, for no one listens much to a "know-it-

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all."[5] Like the converted sinner filled to the brim with the miracle of his conversion, the libertarian after long periods of study often appears so full of exuberance that he feels he must spray forth his beliefs or burst. Yet we know from common experience that the energetic young preacher detracts from his message when he intrudes so deeply into the conversation that he dominates all others. Each of us wants very much to be heard, to have other beings place value on his utterances. The libertarian must learn to listen as well as to speak, to offer his light in small bits, easy to assimilate. Electricity provides wonderful gifts, but none of our appliances can effectively use this source as it arrives from the powerhouse; the energy must be broken down into usable quantities and forces by means of a series of complicated distribution systems and transformers. The freedom devotee must provide his own transformer. Patience and perseverance represent ultimate values in this regard.

Compassion and Joy

Fourth, forget not the need for calmness, compassion and joy. Treat each human being as a human being, not as an object to be mauled and manipulated. Statists view mankind as so much putty to be molded by the social architect; libertarians conceive of man as possessed of a soul, of dignity, of intrinsic worth *qua* person. Far too often, gloom and darkness pervade the setting of the voluntarist and seem to follow him about like a dark cloud. Perhaps this state is caused by the gravity of the situation where statism seems to be winning on every side, or by the serious questions we constantly consider. But such an attitude ignores the solace of our own beliefs and the essential nature of our endeavor. The freedom philosophy offers a lilting rhapsody to man in this world; the tenets of our faith recognize that individuals, while imperfect, are capable of great creative and productive strides. Long faces have no place here, for life for the free man offers an exciting challenge and an exhilarating road to follow. Above all, we must retain a sense of humor ere we lose our stability and our effectiveness in the process. An ability to laugh, even at ourselves, in the face of overwhelming chaos, bodes well for the future success.

Fifth, we must live our lives consistently and in accordance with our philosophy. Consistency represents a major virtue. All too often purported believers in the

[5] See Read, Leonard E., *Who's Listening?* (The Foundation For Economic Education, Inc., Irvington-on-Hudson, New York 1973) especially 1-10.

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freedom ethic act altogether irrationally when they move from their chosen discipline into a related arena. Nothing can quell a questing audience more quickly than an actor who belies his words by inconsistent deeds. The libertarian who accepts government subsidies or competitive advantages deviates as much from his beliefs as the hypocritical Christian who cheats his fellow man on Monday morning. No one will be attracted to voluntarism by cant or deceit. No one can truly express libertarian thought without living his life in harmony with those principles.

Signal Fires

Sixth, after all of the foregoing we must light a few brush fires along the way, to illuminate the path we call right and just. Libertarians assume a defensive posture in many instances: they are labeled "against" social security, wage and price and rent controls, the Federal Reserve System, criminalization of sexual conduct between consenting adults, and myriad other sanctions. Our role includes patient explanation of the fundamental principles underlying these positions: it also includes much more. Each of us must explain the affirmative of the individualist faith: belief in the dignity of individual man and his power to choose rationally between alternatives, in the right of each human being to live his life strictly, solely, and uniquely in accordance with the dictates of his own conscience without interference from others save in the event that he acts coercively or fraudulently.

The signal fires I suggest can take many forms far beyond my limited imagination – so long as they truly reflect these basic principles. For example, libertarians living in a state which permits direct legislative action (initiative, referendum, recall) can refer odious legislation, initiate laws which repeal subsidies, recall venal public officials, and the like. Committed libertarians can seek elective office if such a course does not conflict with their concern with power.[6] Yet reflective people must sound a *caveat,* for political power is power – force – and such tools must be carefully used lest we violate the noncoercive principles underlying the freedom ethic.

Respect Differences

My advocacy of brush fires exemplifies a concomitant thought:

[6] Like Dr. Ludwig von Mises, if granted power, I would abdicate; that position does not mean that all voluntarists share such a view. Certainly, we need lawmakers and judges to administer common justice, adjudicate disputes, define crimes, prepare and provision armies, and administer those relatively few laws necessary to a free and ordered society.

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I do not join the throng which decries the so-called fragmentation of the "right," the tendency of libertarians to heed distinct tocsins. Some of us exhibit more concern with an ordered civilization; some of us carry the label "traditionalist," others "libertarian," still others "conservative"; some of us consider defense posture important, while others denounce local interferences with our lives in one of the many real and touching guises. Yet our very real strength lies in our diversity, our individuality, not in our being a "cohesive political force"; save the latter for the modern-day liberal who enjoys one-mindedness! We may exhibit minor philosophical differences between each other – after all, men are individuals, not carbon copies of one another – but we possess many more values in common with other voluntarists than we do with the statists.

Finally, let us display optimism in the ultimate success of our venture. It is quite easy to harken to the many and varied lootings of value which occur daily and to fall into despondency, but such an attitude serves no one well. See the light against the dark morning sky: each evil little scheme presents one or more of us with a grand opportunity to light his candle for freedom.

IDEAS ON LIBERTY

Free To Discriminate

IF MAN IS TO CONTINUE his self-improvement, he must be free to exercise the powers of choice with which he has been endowed. When discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle. Since man was given these faculties, it necessarily follows that he should use them and be personally responsible for the consequences of his choices. This means that he must be free to either enjoy or endure the consequences of each decision, because the lesson it teaches is the sole purpose of experience – the best of all teachers.

F. A. HARPER, *Blessings of Discrimination*

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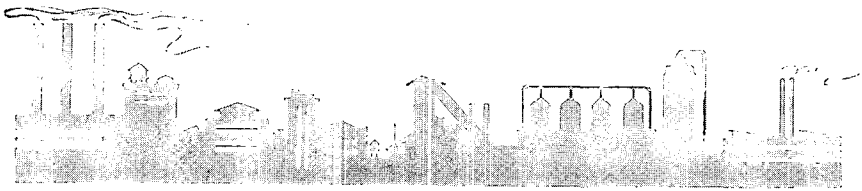

The Multinational Corporation

MARK PETERSON

Is the AFL-CIO right when it warns of the "dimming of America" ensuing from the "export" of American jobs by multinational corporations? And are many non-industrial or underdeveloped countries, such as Mexico, right in clamping curbs and controls on multinationals?

I think not. The multinational corporation, one that undertakes a significant portion of its production outside its original home country, is actually a very natural phenomenon, like the weather, which recognizes no national boundaries. The multinational corporation (MNC) is simply a response to certain economic facts of life: Consumer markets for products are often international, and natural resource deposits bear little relation to Rand McNally's maps. Thus, Swiss Nestlé, an MNC, produces chocolate here because the market is here. GM produces Opels in Germany because the market is there. And Standard Oil (N.J.) is a MNC because nature favored Venezuela and the Middle East.

Accordingly, I believe the MNC is a natural, common sense response to the major law of economics: be efficient, or don't waste scarce resources. I hope to show that organized labor is wrong, since jobs are not really being "exported," and that underdeveloped countries are equally wrong, since the MNC helps, not hinders, economic growth. Notwithstanding the seemingly universal criticism, the MNC is an example of Adam Smith's "invisible hand" at work, of private enterprise in the public interest.

The stakes involved are huge. Perhaps $350 billion worth of goods and services annually, or one-eighth of the free world's output, pours out from MNC factories located outside the MNC home countries. American MNCs

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account for roughly $210 billion or three-fifths of the total MNC output.[1]

Organized labor looks askance at that $210 billion, wondering whether American workers wouldn't be better off if there were no foreign investment by MNCs. The AFL-CIO appears to contend that if MNCs were restricted, the investment money would be spent here, and our growth rate might rocket.

Jobs "Exported"

As it is, jobs have been "exported," according to George Meany. He's vexed by the "runaway plant," which boards up in New Jersey only to pop up in Taiwan, where wages are much lower. He claims the loss of such plants has cost hundreds of thousands of jobs. If the product is destined for foreign markets, why can't it be produced here and exported? Or if we Americans are the consumers (we import Opels, for example), isn't it more logical to produce the product here? (Actually, according to Commerce Department data, only 7 per cent of U.S. MNC production abroad comes back to the U.S.)

The AFL-CIO argument is as full of holes as Swiss cheese, since it fails to recognize the compelling reasons of economic efficiency behind MNC production abroad. For example, when the customers are foreign (usually the case), U.S. firms often can't easily export to them, due to transportation costs and tariffs. With regard to the former, GM, for example, put up assembly plants in Europe during the 1920's, because it could ship nine unassembled Chevrolets from New York at the same cost as two assembled ones. If there were no assembly plants overseas, GM would have sold fewer cars in Europe, with fewer jobs for its American employees building parts.

In the case of tariffs, or taxes by foreign countries on U.S. exports, again American firms have trouble competing in foreign markets. Production inside the tariff walls of those countries enables them to compete.

Still another efficiency consideration is labor cost. Meany is irked by plants which have "run away" to low-wage countries. But why does this happen? In the words of a Harvard Business School professor:[2]

[1] The Diebold Institute, *Business and Developing Countries*, Praeger, New York, 1973, p. 5.

[2] Robert B. Stobaugh, "U.S. Multinational Enterprises and the U.S. Economy," in U.S. Department of Commerce, *The Multinational Corporation, Studies on U.S. Foreign Investment*, Vol. 1, U.S. Gov't. Printing Office, Washington, March 1972, p. 28.

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Although U.S. firms have a preference for operating in the United States, in most cases of U.S. foreign . . . investment, U.S. firms do not have the alternative of continuing to serve the relevant market – either in the U.S. or abroad – from their U.S. plants. If U.S. firms tried to continue operating only in the U.S., they would lose their markets to foreign firms, usually large enterprises from Europe and Japan.

Thus, the U.S. electronics firm which has "run away" to Taiwan does so only to survive in the face of Japanese competition; the jobs lost when the domestic plant shut down would have been lost anyway. No jobs have been "exported."

But why is foreign competition such a threat in the first place? Here the unions themselves are to blame. Normally (that is, in a free market), American firms would shun foreign sites because, though wages are higher here, productivity (or output per worker) is correspondingly higher, due to larger amounts of invested capital per worker. (Another factor for higher productivity is greater "human capital," i.e., better training and education of American workers.) But the unions, with monopoly power over labor, have pressured wages above productivity levels. To recoup this added expense and to survive in the face of less unionized foreign competition, the MNC has arisen.

American workers benefit in many ways from the MNC's quest for efficiency – despite, or rather because of, the MNC's move to outflank the unions.[3] First, workers benefit through the added profits from foreign operations. It's an economic axiom that capital goes where its return is highest; a firm would never go abroad unless it expected a heightening of profits thereby. These profits return to the U.S.; part are paid out in dividends, and the rest swell the supply of savings. These savings are then often invested in the domestic operations of the company, thereby creating more jobs here. Thus, in the long run there may be more investment in American factories than there would be if firms were ordered to confine their investment to the U.S. True, foreign investment consumes a growing slice of the pie of total business capital, but, thanks to foreign investment, the pie is growing.

Some data bear out this assertion. MNCs do appear more profitable than other large firms.[4]

[3] For an explanation that the workers are the real victims of the unions, see W. H. Hutt, *The Strike-Threat System, The Economic Consequences of Collective Bargaining*, Arlington House, New Rochelle, N.Y., 1973.

[4] Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprise*, Basic Books, New York, 1972.

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And apparently these profits have fueled domestic expansion, for MNC domestic employment grew by 2.7 per cent a year during the late 1960's compared to only 1.8 per cent for the overall U.S. private sector (Commerce Department data). However, I'm not claiming this evidence is conclusive, since other, hidden factors may be at work.

A second way American workers benefit is through the domestic activity generated by foreign production. For example, American capital equipment may be installed in an overseas plant. Furthermore, an overseas plant can help the foreign sales of domestically produced goods by creating a "full" product line. For example, the addition of a low-priced item manufactured abroad may complement the high-priced export from America and thereby aid the whole sales effort.

Third, American workers benefit as consumers in the relatively rare case of foreign production for domestic consumption. If the MNC can economize on labor costs, it will pass the savings on through lower prices, thanks to competition. Thus U.S. purchasers of portable radios benefit from the plant which has "run away" to Taiwan.

Fourth, American workers benefit from the foreign prosperity created by MNC investment, through a kind of "feedback." MNC foreign investment tends to expand the economy of a foreign nation; that nation then becomes a better market for U.S. exports. In addition, U.S. owned foreign factories are often better managed than locally owned foreign businesses. Foreign businessmen learn better management techniques by watching U.S. firms in action and by working for U.S. firms.[5] Through a feedback, we benefit as well, since those more proficient foreigners can sell their goods to us at lower prices and feel more confident about investing here.

For these reasons, I conclude the AFL-CIO's warning of the "dimming of America" is pushing the panic button. The MNC contributes solidly to the national interest. What of the international interest – in particular, that of underdeveloped countries?

The MNC offers nonindustrial nations an opportunity to break out of poverty. One manner in which the MNC promotes growth is the provision of capital. Even liberal economist Paul Samuelson agrees on the need for capital.[6] The MNC's capital provides jobs

[5] John H. Dunning, *The Role of American Investment in the British Economy*, available from the Committee for Economic Development, New York, 1969.

[6] *Economics*, McGraw-Hill, New York, 1973, 9th edition, pp. 775-81.

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for many. Thus, to take one example, United Fruit enormously expanded the living standards of the peoples of Central America.[7]

Not only does the MNC pay good wages, but sometimes it offers training in skills, semiskills, and basic literacy and arithmetic, as well as more advanced subjects, in order to foster "human capital." In the case of GE Brazil, the workers had to contribute half the time for such training, while GE Brazil paid them for the other half and met all expenses of the courses.[8]

Improved Management

Another way underdeveloped countries benefit is through the learning of better management techniques. Sears Roebuck, for instance, sent consultants to its local suppliers to aid their operations.[9] GE Brazil contacted local firms, encouraged them to enter new fields and supply GE, and loaned them funds; GE also sent a few engineers from the U.S. to give advice. Furthermore, GE Brazil opened its executive suite to Brazilian nationals; of the 51 highest managerial posts, 35 were held by Brazilians in 1961. These native executives soon found themselves in demand throughout Brazil, and some left GE Brazil to work in other firms.

The MNC helps underdeveloped countries in still another way. It provides local consumers with the goods they want at prices lower than the competition's – the traditional way business helps consumer welfare and economic growth in all countries. Thus, Sears Roebuck introduced Mexico to the supermarket and its discount prices; in addition, it initiated a credit system for poorer customers. And GE Brazil built locomotives and electric generators, both helpful to growth, along with products much in demand by individual consumers, such as lamps and radios. When a businessman is able to reduce the price a consumer pays for a product, he helps economic growth, since the consumer has more money to save or spend on other products.

In view of these favorable effects of MNC investment, it is not surprising that the fastest growing underdeveloped countries have been those which have taken a lenient attitude toward foreign investment: Brazil, South Korea, Thailand, Iran, Jordan, Taiwan,

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7 Stacy May and Galo Plaza, *The United Fruit Company in Latin America*, National Planning Association, Washington, D. C., 1958.

8 Theodore Geiger and Liesel Goode, *The General Electric Company in Brazil*, National Planning Association, Washington, D. C., 1961.

9 *Sears Roebuck de Mexico, S.A.*, National Planning Association, Washington, D. C., 1953.

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Hong Kong.[10] Meanwhile, India's people have experienced hardly any improvement in living standards since their government imposed stringent controls on MNCs, though part of the blame must be shared by India's central planning.

In view of this record, why the hostility to MNCs, such as Mexican President Echeverria's hard line policy and Libya's expropriations or nationalizations (thefts) of oil wells? One root of the problem is leftist ideology, the Leninist concept of imperialism. Another root is the sheer size of some MNCs, which are frequently big, inviting targets, hard to miss, and convenient scapegoats.

Still another root is the competition of MNCs with local businessmen; often a U.S. subsidiary may drive out less efficient local producers. So the government steps in to protect these businessmen (hurting the consumer in the process). Or the government may force the MNC to hire more nationals in top management and allow more shareholding by nationals (local ownership of the subsidiary). These policies manifest a desire to help the rich, the local businessmen, not the poor, the workers and consumers.

The hard line taken by underdeveloped countries is responsible for the relatively declining interest shown by MNCs. For example, MNC investment in Latin America has declined from 39 per cent of the world total in 1950 to 19 per cent in 1970, while Europe's share increased (Commerce Department data). However, Latin American investment increased in absolute terms.

I believe the hard line policy and the reliance on central planning by nonindustrial nations are responsible for a disturbing trend: the income gap between rich and poor nations seems to be widening, not only absolutely, but relatively.[11]

In essence, both unions and most underdeveloped countries are blind to the virtues of the free market and fail to perceive how private enterprise serves the public interest. As the late Ludwig von Mises, the distinguished economist, noted, we live in an age of interventionism, and the "anti-capitalistic mentality" increasingly predominates. The critics of multinationals in particular and of capitalism in general should keep in mind Albany's point in *King Lear*: "Striving to better, oft we mar what's well."

[10] Diebold report, *supra* note 1, p. 86.

[11] Peter G. Peterson, *The United States in the Changing World Economy*, U. S. Gov't. Printing Office, Washington, 1971.

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RALPH BRADFORD

On "USING" the Government

MY OLD FRIEND was reminiscing about the Roosevelt years. In his youth he had been a Republican, but when the New Deal battalions took over Washington he found himself marching to their drum.

He has mellowed considerably. As we exchanged ideas recently he was distressed about the nation's deteriorating financial situation. Rather surprisingly, he inveighed against "spending billions as though they were millions"; and he expressed great concern about the inevitably disastrous results of long-continued deficit financing.

But he still looks back nostalgically to the events of the Nineteen Thirties; and I suspect he secretly feels that he participated in a kind of sanctified crusade. Suddenly, after a thoughtful silence, he made a casual remark (or made it casually) that slowly dawned on me as significant, and led finally to the writing of these paragraphs.

"We were terribly excited in those days," he said, "about making America great. We thought nothing of long hours or hard work. We welcomed ideas, and we used government as I think it ought to be used."

They used government as they thought it ought to be used!

He was not being facetious, and certainly no irony was intended. It was a simple statement of an operating principle or method that required no justification, and that apparently aroused no question in his mind.

He and many of his political associates of the New Deal era were men and women of humanity and good intention. They had lived through several years of economic

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depression. It was not limited to America but was a world catastrophe. It was not as bad as they liked to paint it, but it was bad enough in all conscience, and there was hardship and suffering along with business failures and bankruptcies. Something was wrong, they felt, with a politico-economic system in which such a disaster could occur. They wanted to do something about it. They wanted to see a better and more stable society, in which people could all be safe and happy.

And so they decided to have the government take charge of all their good intentions. They would "use" the government in the way they thought it ought to be used — which, though some of them did not realize it, was as a coercive agency to compel everybody to accept, be governed by, and pay for their particular ideas for insuring economic stability, spreading wealth, curbing greed, abolishing poverty, and generally improving the lot of mankind.

Many Demands

That all this could be done by "using the government as it ought to be used" they never doubted. That others were intent on "using" the government for different and often opposing ends did not deter them. The idea was strong and constant in the Washington of that era. I once heard one of their number, who happened also to be a noted labor leader, express the same idea with respect to *his* program. "I look upon government," he said, "simply as a mechanism for getting things done." While he was generally sympathetic to the wide-ranging program of the New Dealers, the things he especially wanted to get done by force of governmental action were primarily pieces of legislation that favored the aspirations of union leaders. And he was not alone in his self-centered "use" of government. There were others in Washington who wanted to use the government as *they* thought it ought to be used — namely, for their own interest and benefit and that of their friends or constituents. They included representatives of particular lines of business or industry, various trade associations, community development federations, certain kinds of state and regional organizations— a small army of special pleaders, as there always had been. But for the time being the administration forces were in control. Because of a kind of nationwide intellectual paralysis, they had first call on the "use" of government.

And so the country entered the long period of political and economic tinkering that came to be known as the New Deal in capital

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letters – so named because of a poker player's phrase in the acceptance speech of their Presidential nominee, in which he called for a "new deal" for the American people.

The New Deal – By Men of "Vision"

Soon Washington was thronged with those who were intent on "saving the country." Many of them, like my old friend, were also concerned, as they expressed it, with making America "great" – a purpose that ignored the fact that our country was already great, very great indeed, in the eyes of the whole world, and in the fervent belief of most Americans. Experts crowded the corridors—economists, sociologists, specialists on urban problems, ditto on rural conditions, financial analysts, tax counselors, market men – you name it.

The Academy, especially, was heavily represented. Theory was at a premium; experience was discounted. Men of experience, it was alleged, had "got us into this mess." It was up to men of theory and academic standing (and of course "social vision") to get us out of it. New ideas were, indeed, welcomed, as my old friend asserted, though most of them turned out to be not new at all, but very old. Most anybody could get a hearing, especially if he had something radical to propose.

Very shortly, beginning with the famed One Hundred Days, a spate of legislation was ground out by a Congress that had virtually abdicated its power to originate law. Some of it was regulatory legislation that was long overdue. Much of it was costly experimental tinkering. There was an Act to help Agriculture. Quite simply, it subsidized farm operations at the expense of the rest of society, with the two basic provisions that the government would guarantee the farmers a certain price for their produce, and that it would actually pay them for holding a portion of their land out of cultivation in order to create artificial shortages and keep up prices. Perhaps the climactic absurdity was reached when farmers were required to kill a certain percentage of their little pigs, or plow under a specified number of cotton rows.

(Quite recently we have witnessed a throwback to those days in the spectacle of poultry raisers destroying thousands of baby chicks because a governmentally controlled grain market and ceilings on retail prices made it impossible to bring the chicks to table size without actual loss to the grower.)

There was also an industrial recovery Act, so called. It was sup-

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posed to restore health to a faltering economy. Among other measures it provided a program under which people engaged in the same line of business or industry could organize under government sanction, and by the adoption of what were called "Codes" could agree on prices, credit, production and other matters, all in defiance of long-established law, and certainly in contravention of the public interest.

To catalogue and examine all that was undertaken would fill a book. Indeed, it has filled many books already. Some of it has gone by the board because it was declared unconstitutional. Some of it has been merged into later programs. But much remains, notably parts of the farm subsidy program, and an elaborate system of old age pensions and medical benefits. These latter have survived and been expanded under the semantically "good" name of Social Security.

It is not my purpose to attempt a detailed analysis of all this vast program. Two points, however, should be made: First, that this was not the first time (nor will it, in all probability, be the last) that men have "used government as they thought it ought to be used." And second, that such well-meant efforts result in the creation of self-perpetuating bureaucracies, and in keeping expensive and restrictive programs going long after the need for them, real or fancied, is past, or their failure has been demonstrated.

Some Ancient Recipes

As for newness or modernity, the "codification" of industry is at least as old as the European Guild system of the Middle Ages. The compulsory old-age pension system was instituted in Prussia by Bismarck about a hundred years ago, but the idea was not new, even then. And controlling or attempting to control agricultural production and prices by the destruction of growing crops goes back at least as far as the Roman Emperor Domitian during the first century after Christ.

As for bureaucratic self-perpetuation, Washington is full (and so, I suppose, are most State capitals) of agencies whose original purpose has been well-nigh forgotten. But try to get one of them discontinued! Woe betide the conscientious official who would attempt such sacrilege! At once an indignant howl ascends to heaven. A pressure group is formed, clear back to the grass roots. Congressmen are besieged with letters, telegrams, phone calls and delegations. The heat is applied to their important supporters back home. The deprivation syndrome also

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comes into play. If the bureau was originally started to provide some sort of "benefit" (financial or otherwise) to segments of the population, then no matter how wasteful, inefficient, or no-longer-needed it may prove to be – hands off! It has become a sacred cow – not only to its scattered beneficiaries, but to its small army of employees. To abolish it would be to deprive worthy people of their rights, and their employment. Shame on you for trying to do such a cruel thing!

And this sort of reaction is not limited to small-fry recipients of governmental aid or employment. It is practiced equally by the scheming housewife who skips from job to job in order to collect so-called unemployment benefits during the idle periods, and the big corporation executive who uses more sophisticated methods of seeing to it that his company retains its full share of the Washington favors. Colleges, universities, states, regions, big business, little business, labor, merchants, bankers, manufacturers, teachers – powerful and influential sections of the society are equally vocal, energetic, resourceful and persuasive in protecting their slice of the Federal pie. They are convinced and dedicated disciples of using the government – as they think it ought to be used.

A Social Disease

So much for what may be called the pragmatic or practical or bread-and-butter aspects of "using" the government. But the matter goes far deeper. These attitudes are surface things – symptoms of the inner malaise that can affect a government and its people when it has ceased to be a government and become a mere collection and disbursement agency for the enhancement of privilege and the distribution of largesse. When such a state is reached, the government, if it survives at all, emerges either as a tyranny or as a collectivist regime. In either case, the general economy ultimately stagnates, initiative is stifled, and freedom, as men have known it and died for it, perishes. In either case, it is a dream gone bankrupt.

What, after all, is government? It is a device created or evolved by men to protect them in their inherent or acquired rights, and to insure their liberty. A good statement of the purpose of any government in an advanced stage of society is to be found in the Preamble to the Constitution of the United States. "To form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to our-

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selves and our posterity." In a more primitive society it might have been expressed in simpler terms: "We must organize to keep our several jealous tribes in order, see that everybody gets a fair deal in his relations with others, take care that criminally-minded people can't rob us and destroy our property, have some men specially trained to repel our enemies if they attack us, see to it that everybody has a fair chance to make a living and get ahead in the world, and fix things so that our children will be free."

In post-Colonial America more than a decade of experience and experiment had demonstrated the need for a strong central government. The old Articles of Confederation simply would not suffice. Thirteen separate, jealous, and often mutually antagonistic States loosely federated was not the answer to the question of American survival. The problem was, how to attain the degree of unification that would insure stability and freedom without getting caught in the toils of a centralism that would invite tyranny. Hence the long thirteen years of delay; hence the protracted debate; hence the elaborate precautions against concentrated power; hence the three great divisions of government; hence the so-called checks and balances.

There was a notable intellectual content in the political leadership of that time. They were well grounded in a kind of empirical idealism. Those who hammered out the Constitution were men of education and vision, heavily seasoned with uncommon common sense. To think of them as untutored colonials is to misunderstand completely the kind of life and experience that had molded them. Most of them were highly sophisticated, well educated men, thoroughly grounded in Latin and Greek, careful students of classical literature, and especially familiar with the writings of such philosophers as the Baron Charles de Montesquieu and John Locke, and such legal savants as the great William Blackstone.

On the Shoulders of Giants

From Blackstone they derived an understanding of the nature and purpose of government and law. From Montesquieu they learned the principle of a separation of governmental powers, remembering that the wise Frenchman, himself a magistrate, had written: "When the legislative and executive powers are united in the same person, or in the same body of magistrates, there can be no liberty." From Locke they inherited the idea of "natural rights" (which he said consisted

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of life, liberty and property) and the concept of the "social contract" – i.e., government. From all of them and others, as well as from their own abundant common sense, they had developed the conviction that the state was the servant of the people, and not the other way around. They also were committed to the idea of a duality, or diffusion, of power; and so they were careful to provide for, and reserve certain rights and powers to the governments of the several states. Through all their deliberations and decisions ran a salutary fear of too much, too powerful, and too concentrated government. They were careful, therefore, to hedge each branch of government about with definite restrictions upon the nature and extent of the power it should exercise.

The purpose was to provide the authority and strength needed to protect the nation against aggression from without, to guard against civil disorders within, and to make citizens secure in their civil and property rights. And the ideal constantly aimed at was to do this with the minimum of machinery – in short, to avoid the burden, and the danger, of too much government.

So what happened? Perhaps the best answer to that question is to be found in one simple but appalling statistic: The number of *civilians* now employed by our government is TWO MILLION, EIGHT HUNDRED AND NINETEEN THOUSAND, SIX HUNDRED AND SIXTY ONE!

I have put the word "civilian" in italics to emphasize that we are not now talking about soldiers, sailors, marines and air force personnel. They are something else, and a problem in themselves. We are here considering only those employees who are hired to run the innumerable departments, bureaus, commissions, committees, boards and other agencies that have resulted from the determination of the American people to "use" the government.

The Executive Branch

This fantastic bureaucratic army, it should be noted, is almost entirely attached to the Executive branch of the government – naturally enough, because that is where the action is. The Legislative branch merely orders things done by passing a law and voting an appropriation. The Judicial branch merely says whether you can or can't do it under the Constitution. It is up to the Executive, or Administrative, branch to do the job. And so we find that the Legislative branch (both houses of Congress) employs only 33,688 people aside from Congressmen and Senators. The Judicial

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branch is still more modest in its demands for help. It employs a relatively insignificant army of only 8,243. (*Only!* That slight quake you felt just then was John Marshall turning over in his grave.) So that leaves the snug little total for the Executive branch of 2,769,848 employees.

In any overview of the government one starts out, of course, with the great Departments, such as State, Defense, Commerce, Justice and the rest, numbering now eleven, with Defense being actually a kind of umbrella department covering the operations of the Army, Navy and Air Force. Each Department has its duties, defined by law originally and enlarged by the zeal and ingenuity of its devoted bureaucrats. (And this is not said critically of them. Many are devoted public servants, doing the job expected of them; but they would be less than human if they did not work to expand the area of action in which their lot is cast.) The names of these great Departments indicate generally the job each was created to do: Commerce – obvious; Labor – ditto; Treasury – our finances; and so on.

But then we come to the so-called Independent Agencies. These have been set up from time to time, occasionally to meet a recognizable need, often as a result of pressure-group activities. They are all, of course, lodged in the Executive branch. What are they? I can't possibly even list them in an article of this compass; and besides, if I did you probably wouldn't believe me! I suggest, instead, that you get a copy of the *United States Government Organization Manual* for 1972-73. It is published by the government itself and is available for $3.00 from the Superintendent of Documents, Government Printing Office, Washington. It is a well organized documentation; and it has 710 pages; so in sheer bulk you will get your money's worth.

The section on Independent Agencies begins on page 372 and runs through page 538 – 166 pages of rather small type just to name and describe these Agencies, of which there are now 61. One of them is the General Services Administration, whose job is to provide a system for the management of government property and records, including the construction and operation of buildings, procurement and distribution of supplies, utilization and disposal of property, stockpiling of strategic materials, and so on. In addition to its Washington establishment, it has ten regional offices and operates Information Centers in 35 cities; and it requires five pages of the book just to list the

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Administrators, Deputy Administrators, Directors of Projects, and other officials.

So what? Is this written to belittle or discredit the General Services? Not at all. For all I know it is manned by very fine men and women. So far as I am aware, it is a necessary agency, in view of all those Federal buildings and other property. Given the existing set-up, it probably could not be dispensed with. And if that be true, it simply serves to support the theme and purpose of this article, which is not to attack agencies or individuals, but to point out the size, complexity and enormous cost that have resulted from the determination of people to "use the government as they believe it ought to be used."

A Case in Point

On my desk as I write is a recent issue of my home town newspaper. In the "Letters" section, Mr. Brent Hall, Athletic Director of one of our high schools, writes: "I am angry and more than a little scared." Why? Well, he says he is angry "because the U. S. Senate will soon vote on S-2365, a bill which, if passed, would create a Federal Board with practically unlimited power over high school and college athletics."

He goes on to assert that high school and college athletics are two of the most self-policed and regulated institutions in our society, and he adds: "It is a crime that our political system has become so overloaded with people who think they know what is best for society without consulting those whom they wish to regulate. The whole point of competition in a free society is that it is by choice and not by edict of government." He is scared, he adds, because he fears the Bill may pass by default.

His fear and his anger are both justified; but he should not have been surprised – and I am sure he was not. An effort to put high school and college athletics under Federal control and regulation is a logical extension of what has been going on in other areas for many years. I have not seen the Senate Bill in question, and can only guess at all its provisions; but if it passes we can be sure of two things: First, the Washington Bureaucracy will be enlarged to include another Bureau or Agency or Commission. Just how big it will be is anybody's guess; but there are over 2600 colleges in this country, and about 14,700 high schools with athletic activities; so with some 17,300 athletic programs to monitor and direct, an extensive and costly Bureau will be required. But second, and more important, volunteerism, the

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principle of local self-regulation, will have been dealt another blow. And the blow will have been administered at the vulnerable high school and college level, where the minds and attitudes of young people are being formed.

Good Intentions

It is a merry whirl, but a disastrous one, this business of "using" the government. And perhaps its grimmest irony is that it is seldom evil in purpose. On the contrary, it usually springs from good social and humanitarian motives. The intent is not to weaken or destroy the government, but to help some element of society – the poor, the handicapped, the under-educated; the small industry so it can thrive and get to be large; the large industry so it can meet foreign competition, pay dividends, and furnish employment; young people so they may have a better chance in life; old people so they may face age without penury; farmers so they may be on a par with other industry; education so people may better cope with life . . . and so on and on. Nobody wants to injure the government. They just want to "use" it – for the greater glory.

And so, in addition to the 11 great Departments, we have the 61 Independent Agencies and 70 Selected Boards, Committees and Commissions. And at latest count, and not including the Armed Services, we have, as we have seen, nearly three million people working in those departments and agencies. When you add to these the number of people working for State and local governments, include those in the armed services, and count in the more than thirty-one million who are now on Social Security, we find that there are in round numbers sixty-two million Americans who are now receiving regular monthly checks from government.

One result of all this is that for years now we have had annual budget deficits of from ten to twenty *billion* dollars; that our national debt has been swollen to over $400 billion; that nobody in authority has made any serious effort to pay anything on that debt; and that inevitably we have experienced a constant and ruinous destruction of the value of our money. Not only has this created an intolerable living-cost burden for the average citizen; on the international plane it has weakened the prestige and influence of our country among the powers of the world.

The other result, which is even more disastrous in terms of real welfare and security, is this: that as a people we seem to have reached the point where we no

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longer see any alternative. We accept the "use" of government, and demand more; so much so that in all the clamor of recent months about the cost of food and other life necessities, almost nobody ever mentions the debt and its effects, or seems to see the need for governmental economy. Instead, the well-nigh universal cry has been for more government action: more cost-of-living studies, more wage and price freezes, more controls on the market – in short, for the application of additional expensive and ineffectual adhesive plasters instead of the surgery that is needed!

The simple remedy that nobody mentions can be briefly stated: stop the annual deficits; reduce the size of government; abandon inflationary monetary policies; free the market and let prices find their level.

Will this ever be tried? Or will well-meaning zealots continue to demand that the government be used as they think it ought to be used?

IDEAS ON LIBERTY

Power Abused

How MANY times throughout history this same mistake has been made: Power given to someone who is trusted; then another, to whom the people would *never* have given power, inherits that which was given to a trusted one.

You can guess what happened. Joseph died. An Egyptian inherited the power that had been Joseph's. He didn't assume any power that had not been in the hands of the kind and compassionate Joseph. The only difference was that he used it differently. He used it to make of the Israelites the abject slaves described in the Bible.

Today we have empowered people in our own government to do things for us without realizing the fearful extent of that power. We don't yet realize it because the people who now hold it have generally not chosen to exercise it in all the awfulness implicit in it. When they do, we will wonder how we could ever have been foolish enough to have given that power to anyone.

From the article "Two Ways to Slavery" by James M. Rogers in Essays on Liberty, *Vol. III, Foundation for Economic Education, Irvington-on-Hudson, N. Y.*

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TIBOR R. MACHAN

LIBERTY vs. COERCION: the Burden of Proof

WHENEVER I become aware of some new means by which some of my fellow citizens aim to encroach upon other people's liberty, I tend to oppose such measures. Some time ago a local television editorial advocated the establishment of a new Federal agency to protect the interest of consumers. Later I discussed this with some acquaintances. When they heard my protests, they immediately raised their eyebrows: "Why not?" they asked. "Why should the government stay out of the business of protecting the consumer?"

I tried to explain, starting from the principle of *caveat emptor* and going on to the impossibility of protecting consumers against their would-be protectors. I even argued for some alternative system, such as an insurance program, whereby the consumer can protect himself without involving everyone in this mission.

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None of this seemed to help my case. At each turn I was simply told, "Well, such an agency might still help; it might be able to do something to avoid difficulties with business firms that make shoddy products and cause all sorts of trouble for the consumer." And in a way this is right; such an agency *might* very well do some good for somebody. But this seems hardly sufficient to justify its establishment.

Each time I emerge from such a discussion I make several resolutions. Most frequently I resolve that it does little good to talk about such matters in brief encounters – hardly anyone is prepared to investigate the issues carefully enough to learn anything. It seems inconceivable to most people that agencies of the Federal government should not get involved with such activities as consumer protection, that is, protecting people against their own carelessness. This, despite what Herbert Spencer discovered some time ago: "The ultimate result of

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shielding men from the effects of folly is to fill the world with fools." It becomes evident in these discussions that people nowadays rarely think in terms of principles. Who wants to apply an old-fashioned principle to a modern practice? Regulating business firms seems to many people to be light-years away from regulating the work of newspaper and television writers; consumer protection and censorship are thought to have nothing to do with each other. Finally, there is always a problem in protesting some new infringement on human liberty because so many exist already. What point is there in protesting at *this* juncture; after all, we live with so much coercion and force already! Thus, the matter is purely academic, or so these people seem to believe.

For a Better Way

How, then, does one combat this prevailing tendency to run to government to achieve every goal that seems desirable? "Why not?" "It might work despite the record of failures." Let me share some of my thoughts on the matter.

When a program is advocated by someone, others are entitled to know his reason if the program involves them in some unavoidable manner. If I decided tomorrow that I will try, from now on, to help America's consumers by writing letters to business executives, accompanying buyers on their trips to the store, publishing books about the quality and variety of products available, or the like, no one else need be worried about why I am doing this. I may be someone with altruistic motives, a guilt complex, or a plan to strike it rich through a consumer-protection business. Other people are free to ignore my efforts, or to join in them if they so choose. But they have no right to demand that I furnish them with a justification for my actions. (They could conclude, even rightly, that I am wasting my time, that I will go broke, or something of that sort – just as they could judge my plans to be very valuable. But they cannot justifiably demand that I account to them as to why I am embarking on my mission.)

The case is different when my plans *must necessarily* involve others. Take, for example, the editorial which urged a Federal consumer-protection agency. Others will be involved – including taxpayers, business employees who must comply with regulations, and so on. At this juncture, it seems reasonable to demand that proponents of such a scheme fully explain and justify why other persons should be involved and obliged to join in their mission.

But this is not as simple a de-

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mand as it seems. There are times that we believe, without the slightest doubt, that we are entitled to something; and when it is not delivered, we believe we may take measures to remedy the situation. There is no wide-scale agreement in such matters; people differ drastically as to what each believes to be his rights. One person believes that he is entitled to some help with his medical problems whenever he cannot handle them, whereas another may believe that he alone is responsible for such matters as his health, welfare and education. To the first person, it will seem self-evident that others ought to help with his troubles, whether or not they choose to do so; he would think it our *natural* duty, an obligation we have toward each other and whose performance must, at times, be enforced lest his needs be neglected. The second person, however, would consider the duties we have toward each other to be an outgrowth of our own choices; even if some of us have natural obligations toward others, we ought not be forced to perform them. Indeed, if force were to be justified, it would be to see that we are left free to lead our own lives and to be charitable in our own way.

Needed is a philosophical justification of the limits we ought to draw around our actions to help identify what we are entitled to do, what range of actions we can perform without limiting the liberty of others. This in turn might help explain why we would demand justification before we would allow another to involve us in his schemes. The person who believes that his medical problems should be alleviated through help from others may so believe in all honesty and sincerity. If so, at least he may be invited to consider a philosophical system under which various claims might be justified. Perhaps then he will see that to get the help he wants, he must justify his claim that we should give it to him and also justify any force he would use toward that end.

Sincerity of Purpose

But such a philosophical theory is not a simple matter to develop. Nor can it be communicated in discussion of such an isolated issue as the proposed Federal consumer-protection agency. Such discussion will get nowhere unless the parties have the sincerity of purpose, time, and knowledge to cover the entire range of related ideas back to the theory of liberty.

Some have sought to shorten the discussion, saying that each individual's person or body sets the limit of other people's authority. But clearly this will not suffice, for it does not cover such

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things as our house, books, automobile, or musical composition. The theory must relate all such properties to us in some way that will justify our keeping them for ourselves if we choose. Opponents of liberty notoriously complain that Americans have stolen their present land holdings from the Indians. And if this is so, do we have any defense against those who would steal from us in turn these lands and their fruits? Do thieves or recipients of stolen goods have any justifiable complaint if the goods are stolen again?

Even with a sound theory of property rights, the argument for liberty may be lost in the mists of democracy. How often we hear that living in a democracy involves giving up certain rights to privacy, property, and the like. And if that be so, may the individual logically claim anything at all that is not allowed by the majority — or its representatives? What, in short, justifies the view that the exercise of majority rule is limited by certain principles defining human liberty — certain inalienable, universal, and absolute human rights?

So what is one to do in the face of such widely entrenched coercion and political intervention? It seems that education in broad political principles and their philosophical justification must be the general approach. If there is a reasonable case for such coercive intervention, let the burden of proof be on those who are doing the attacking. Let *them* try to justify coercion, even in one or two isolated cases. Let them prove to our satisfaction why consumer protection justifies that millions of others will be deprived of their income without their consent. Let them try to demonstrate the virtue of coercion, for they are the ones who are embarking on the course of action that will necessarily involve the lives of others.

Without a demonstration of the validity of the explicit or implicit claim that others should be forced to comply with the aggressor's plans — however noble these may be — we are entitled to treat his proposal as something entirely arbitrary, without support in truth and justice.

Nor is all this merely an academic exercise. When they are thus challenged, amazingly little attempted justification is forthcoming from most of those who insist that coercion is a valid means for solving human problems. They simply hadn't thought about it that way. And such a provocative challenge may well be their first short lesson toward an education in the nature of human liberty.

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HENRY HAZLITT

The Future of the Dollar

BEFORE we consider the future of the American dollar it may be wise to cast a glance at the glories of its past and examine the main causes that have brought it to its present humiliating state.

The logical starting point in this examination is Bretton Woods. When the representatives of some forty nations met there in 1944, heretical monetary notions were floating in the air. Lord Keynes, who was there, was their chief spokesman. The most definite of these notions was that the gold standard was a barbarous relic, and neither could nor should be restored. It put every national economy in a strait jacket. It prevented full employment; it strangled economic growth; it tied the hands of national monetary managers. And all for no good reason except an outworn mystique. Besides, there wasn't enough gold in the world to sustain convertibility.

But because some American Congressmen and some parliaments were thought to have a lingering prejudice in favor of gold, it seemed prudent to compromise, and to set up something that looked almost like a gold standard – a thinly gold-plated standard. So, through an International Monetary Fund (IMF), a sort of world central bank, every other currency was to be pegged at a fixed rate to the Almighty Dollar. Each nation, after fixing an official parity for its currency unit, pledged itself to maintain that parity by buying or selling dollars. The dollar alone was to be convertible into gold, at the fixed rate of $35 an ounce. But unlike as in the past, not everybody who held dollars was to be allowed to convert them on demand into gold; that privilege was reserved to national central banks or other official institutions.

Thus, everything seemed to be neatly taken care of. When every other currency was tied to the dollar at a fixed rate, they were all necessarily tied to each other at fixed rates. Only one currency was

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tied to the dreadful discipline of gold, and even that in a very limited way. Gold was "economized" as never before. It was now the servant, no longer the master.

Automatic Credit

In addition, the Bretton Woods agreements provided that if any nation or central bank got into trouble, it was entitled to automatic credit from the Fund, no questions asked.

Thus, not only released from a strict gold standard, but tempted to imprudence, individual nations felt free to expand their paper money and credit supply to meet their own so-called domestic "needs." The politicians and the monetary managers in practically every country were infected with a Keynesian or inflationary ideology. They rationalized budget deficits and continuous monetary and credit expansion as necessary to maintain "full employment" and "economic growth." As a consequence, there were soon wholesale devaluations. The IMF has published hundreds of thousands of statistics; but the single figure of how many devaluations there were between the opening of the Fund and August 15, 1971, when the dollar itself became officially inconvertible into gold, the IMF has never published.

There were certainly hundreds of devaluations. To my knowledge, practically every currency in the Fund, with the exception of the dollar, was devalued at least once. The record of the British pound was much better than that, say, of the French franc, but the pound itself, which had already been devalued from $4.86 to $4.03 when it entered the IMF, was devalued again from $4.03 to $2.80 in September 1949 (an action that touched off 25 more devaluations of other currencies within a single week), and devalued still again from $2.80 to $2.40 in November, 1967.

Devaluation, let us remember, is an act of national bankruptcy. It is a partial repudiation, a government welching on part of its domestic and foreign obligations. Yet, by repetition by all the best countries, devaluation acquired a sort of respectability. It became not a swindle, but a "monetary technique." Until the dollar went off gold in August 1971 and was devalued in December, we heard incessantly how "successful" the Bretton Woods system had proved.

During the early part of this period, however, the world suffered from what everybody called a "shortage of dollars." The London *Economist*, among others, even solemnly argued that there was now a *permanent* "shortage of dol-

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lars." Americans thought so too. Our monetary managers seemed completely unaware of the tremendous responsibility we had assumed when we allowed the dollar to become the standard and the anchor for all the other currencies of the world. Our money managers never dreamed that it was possible to create an excess of dollars. They issued and poured out dollars and sent them abroad in foreign aid. Total disbursements to foreign nations, in the fiscal years 1946 through 1971, came to $138 billion. The total net interest paid on what the United States borrowed to give away these funds amounted in the same period to $74 billion, bringing the grand total through the 26-year period to $213 billion.

This amount was sufficient in itself to account for the total of our Federal deficits in the 1946-1972 period. The $213 billion foreign aid total exceeds by $73 billion even the $140 billion increase in our gross national debt during the same years. Foreign aid was also sufficient in itself to account for all our balance-of-payments deficits up to 1970.

Internal Inflation

We created a good deal of this money through internal inflation. From January 1946 to August 8, 1973, the money supply, as measured by currency in the hands of the public plus demand bank deposits, increased from $102 billion to $264 billion, an increase of $162 billion, or of 159 per cent. In the same period the money supply as measured by currency plus both demand and time deposits increased from $132 billion to $549 billion, an increase of $417 billion, or 316 per cent.

Because of what our monetary authorities believed was the necessity of keeping this enormous inflation going, they adopted one expedient after another. In 1963, blaming the deficit in our balance of payments on private American investment abroad, they put a penalty tax on purchases of foreign securities. In 1965 they removed the legal requirement to keep a gold reserve of 25 per cent against Federal Reserve notes. They resorted to a "two-tier" gold system. Next they invented Special Drawing Rights, or "paper gold." But all to no avail. On August 15, 1971, they officially abandoned gold convertibility. They devalued the dollar by about 8 per cent in December, 1971. They devalued it again, by 10 per cent more, on February 15, 1973.

Exported Inflation

Before we bring this dismal history any further down to date, let us pause to examine some of the chief fallacies prevailing among

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the world's journalists, politicians, and monetary managers that have brought us to our present crisis.

Because we were sending so many of our dollars abroad, the real seriousness of our own inflation was hidden both from our officials and from the American public. We contended that foreign inflations were greater than our own, because their official price indexes were going up more than ours were. What we overlooked – what most Americans still overlook – is that we were *exporting* part of our inflation and that foreign countries were *importing* it.

This happened in two ways. One was through our foreign aid. We were shipping billions of dollars abroad. Part of these were being spent in the countries that received them, raising *their* price level but not ours. The other way in which we exported inflation was through the IMF system. Under that system, foreign central banks bought our dollars to use them as part of their reserves. But in addition, under the rules of the IMF system, central banks were obliged to buy dollars, whether they wanted them or not, to keep their own currencies from going above parity in the foreign exchange market. The result is that foreign central banks and official institutions today hold some 71 billion of our dollars.

These dollars will eventually come home to buy our goods or make investments here. When they do, their return will have an inflationary effect in the United States. Our domestic money supply will be increased even if our Federal Reserve authorities do nothing to increase it.

Balance of Payments

The meaning of the "deficit" in our balance of payments has been grossly misunderstood. It has not been in itself the real disease, but a symptom of that disease. The real question Americans should have asked themselves is not what consequences the deficits in the balance of payments caused, but what caused the deficits. I have just given part of the answer – our huge foreign aid over the last 27 years, and the obligation of foreign central banks under the Bretton Woods agreements to buy dollars. But the foreign central banks had to buy dollars because dollars had become overvalued at their official rate. They became overvalued because the U.S. was inflating faster than some other countries.

After the United States formally suspended gold payments, and after the dollar was twice devalued, foreign banks no longer felt an obligation to buy dollars. The dollar fell to its market rate,

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and as one consequence we again have a monthly excess of exports. The economists who had all along been demanding the restoration of free-market exchange rates were right. Now that the dollar is no longer even nominally convertible into gold there is no longer any excuse for governments to try to peg their paper currency units to each other at arbitrarily fixed rates. The IMF system ought to be abandoned. The International Monetary Fund itself ought to be liquidated. Paper currencies should be allowed to "float" – that is, people should be allowed to exchange them at their market rates.

But it is profoundly wrong to assume, as many economists and laymen unfortunately now do, that daily and hourly fluctuating market rates for currencies will be alone sufficient to solve the multitudinous problems of foreign commerce. On the contrary, these wildly fluctuating rates create a serious impediment to international trade, travel and investment. They force importers, exporters, travelers, bankers, and investors either to become unwilling speculators or to resort to bothersome and costly hedging operations. With 125 national currencies represented in the IMF, there are some 7,750 changing cross-rates to keep track of, and twice as many if you state each cross-rate both ways. With a gold standard gone, with the dollar standard gone, there is no longer a single accepted unit in which all of these rates can be stated.

Some Gain — Some Loss

It is a great gain when currencies can be exchanged at their true market rates. Since this has happened the American trade balance has improved. In the second quarter of 1973, for example, there was again a surplus of exports. In July, 1973, American exports in dollar terms were the highest for any single month on record. But it is one thing to allow trade to improve by abandoning arbitrary pegs on foreign-exchange rates; it is quite another thing for a country to seek to increase its exports at the expense of its neighbors by deliberate devaluation. Yet this is what the United States government has very foolishly done.

In early August, 1973, Frederick B. Dent, the U. S. Secretary of Commerce, assured the American public that the devaluations of the dollar had provided the nation with a "bright opportunity." "Without question," he added, "the most important factor in the improving trade trend is the combination of the two devaluations." In fact, the U. S. Department of Commerce placed an advertisement in the issue of *Time* of July 2, and

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in other magazines, declaring that to the U. S. exporter the devalued dollar means "vastly improved prospects," that it would help him to capture "a bigger share of oversea markets," and that it was up to him to "start putting the devalued dollar to work."

The basic fallacy in this euphoric picture is that it looks only at the short-run consequences of devaluation and even at these only as they affect a small segment of the population.

It is true that the first effect of a devaluation, if it is confined to a single country, is to stimulate that country's exports. Foreigners can buy that country's products cheaper in terms of their own money. Thus, as the Department of Commerce's ad correctly pointed out: "For instance, an American product for which a West German importer paid 1000 deutsche mark only 18 months ago would now cost him as little as 770 marks. Or about 23 per cent less than before." So the American exporter stands to sell more goods abroad at the same price in dollars, or the same volume of goods in higher prices in dollars, or something in between, depending on whether his product is competitive or a quasi-monopoly.

So far, so good. But U. S. exports amount to only 4½ per cent of the gross national product. Now let us enlarge our view. If the dollar is devalued, say, by a weighted average of 25 per cent in terms of other currencies, something else happens even on the first day after devaluation. The prices of all American imports go up by that percentage (or more precisely, by its converse). Every American consumer has to pay more, directly or indirectly, for meat, coffee, cocoa, sugar, metals, newsprint, petroleum, foreign cars, or whatever. Even the American exporter, as a consumer, has to pay more, and also more for his imported raw materials. So the immediate effect of a devaluation is to force the consumers of the devaluing nation to work harder to obtain a smaller consumption than otherwise of imported goods and services. Is it really a national gain for the American people to sell their own goods for less and buy foreign goods for more?

The belief that devaluation is a blessing, because it temporarily enables us to sell more and forces us to buy less, stems from the old mercantilist fallacy that looked at international trade only from the standpoint of sellers. It was one of the primary achievements of the classical economists to explode this fallacy. As John Stuart Mill said:

> The only direct advantage of foreign commerce consists in the imports. A

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country obtains things which it either could not have produced at all, or which it must have produced at a greater expense of capital and labor than the cost of the thing which it exports to pay for them. . . The vulgar theory disregards this benefit, and deems the advantage of commerce to reside in the exports: as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it.

Long-Run Effects

So far I have considered only the immediate effects of a devaluation. Now let us look at the longer effects. The devaluation or depreciation of a currency soon leads to a rise of the internal price level. The prices of imported goods, as I have just pointed out, have a corresponding rise immediately. The demand for exports rises, and therefore the prices of export goods rise. This rise of prices leads to increased borrowing by manufacturers and others to stock the same volume of raw materials and other inventories. This leads to an expansion of money and credit which soon makes other prices rise. (Often, of course, the causation is the other way round: an expansion of a country's currency and a consequent rise of its internal price level will soon be reflected in a fall of its currency quotation in the foreign exchange market.) In brief, internal prices soon adjust to the foreign-exchange quotation of the currency, or vice versa.

We can see more clearly how this must take place if we look at a freely transportable international commodity like wheat, copper, or silver. Let us say, for example, that copper is 50 cents a pound in New York when the deutsche mark in the foreign exchange market is 25 cents. Then purchases, sales, and arbitrage transactions will have brought it about that the price of copper in Munich is four times as high in marks as in dollars plus costs of transportation.

Suppose the dollar is devalued or depreciated so that the mark now exchanges for 40 cents. Then, assuming that the price of copper in terms of marks does not change (and though I have been specifically mentioning marks, dollars, and copper I intend this as a hypothetical and not a realistic illustration), purchases, sales, and arbitrage transactions will now bring it about that the price of copper in New York will have to rise 60 per cent in terms of dollars. To bring this new adjustment about, more copper will flow from the U. S. to Germany. But after this temporary stimulus to American export, the new price adjustment will bring it about that, other

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things being equal, the relative amount of copper exported may be no different than before the devaluation.

A Brief Period of Transition

I have been speaking of international commodities, traded on the speculative exchanges, and easily and quickly transportable. In these commodities the international price adjustments will take place in a few days or weeks. The price adjustments of most other goods will, of course, take place more slowly. The main point to keep in mind is that there is a constant tendency for the internal purchasing power of a currency to adjust to its foreign-exchange value – and vice versa. In other words, there is a constant tendency for the internal *prices* in a country to adjust to the changing foreign-exchange value of its currency – and vice versa. Though our modern monetary managers and secretaries of commerce seem to know nothing about this, the purchasing power theory of the exchanges was first explained a century and a half ago by Ricardo.

In other words, the alleged foreign trade "advantages" of a devaluation last for merely a brief transitional period. Depending on specific conditions, that period may stretch over more than a year or less than twenty-four hours. It tends to become shorter and shorter for any given country as depreciation of its currency continues or devaluations are repeated. Internal currency depreciation usually lags behind external depreciation, but the lag tends to diminish.

Statistical studies have been made of the relationships of the internal and external purchasing power of a currency under extreme conditions – for instance, the German mark during the 1919-1923 inflation. (See *The Economics of Inflation*, by Constantino Bresciani-Turroni, 1937.) It would not be too hard for any competent statistician, with the help of a copy of *International Financial Statistics*, published monthly by the IMF, to put together revealing comparisons of foreign-exchange rates and internal prices for any country that publishes reasonably honest wholesale or consumers price indexes.

It is instructive to recall, incidentally, that at the height of the German hyperinflation, which eventually brought the mark to one-trillionth of its former value, monthly exports, measured in tonnages, fell to less than half of what they had previously been, while the tonnage of imports doubled or tripled.

In brief, the pursuit of a more "favorable" balance of payments,

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or a trade "advantage," through depreciation or devaluation of one's own currency, is the pursuit of a will-o-the-wisp. Any gain of exports it brings to the devaluating nation is temporary and transient, and is paid for at an excessive cost – an internal price rise and all the economic distortions and social discontent and unrest this brings about.

The usual criticism of currency devaluation is that it will provoke reprisals; that other countries will try the same thing, and the world may be plunged into competitive devaluations and trade wars. This objection is, of course, both a valid and a major one. But what I have been trying to emphasize here is a point that few of our monetary managers have grasped – that even if there is no retaliation, devaluation as a deliberate policy pursued for the sake of a foreign trade gain is self-defeating and stupid. The two American devaluations, for example, were monumental blunders. If the world's monetary managers can be brought to learn this one lesson, the economic and political gain will be immense.

Remedial Measures

What steps should be taken to halt the present world inflation and return the world to sound money? The immediate steps are simple and can be briefly stated. The United States – and for that matter every country – should forthwith allow its citizens to buy, sell, and make contracts in gold. This would be immediately followed by free gold markets, which would daily measure the real depreciation in each paper currency. Gold would immediately become a *de facto* world currency, whether "monetized" or not. The metal itself would not necessarily change hands with each transaction, but gold would become the unit of account in which prices would be stated. Exporters would be insured against the depreciation of the currencies in which they were being paid.

The second (and preferably simultaneous) step can be stated more briefly still. Every nation should refrain from further increase in its paper money and bank credit supply.

For the United States a special measure would also be needed. A hundred billion dollars or more are held by foreign central banks and foreign citizens. Most of these are no longer wanted. They dangerously overhang the market, and constantly threaten to bring sudden and sharp declines in the dollar.

The U. S. government must do two things. It must follow monetary policies that will assure foreign dollar holders that they are

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not holding an asset that is likely to depreciate still further but, on the contrary, one that is likely to keep its value or even to appreciate a little. Secondly, the U. S. government should volunteer to fund the dollar overhang. It could do this by offering foreign central banks interest-bearing long-term obligations for their liquid dollar holdings – say, bonds that would be repayable and retirable, principal and interest, in equal installments over a period of twenty-five or thirty years. It should preferably negotiate with each country separately, and should guarantee its bonds by making principal and interest repayable, at the option of the central bank holding them, in either the face value of the dollars or in the currency of the country holding them, at the same ratio to the dollar as of the market rate on the day the agreement was reached. Thus, the Bank of Japan would be paid off, at its option on any payment date, either in dollars or in yen; the Bundesbank either in dollars or in marks; and so on.

Ricardo's Recommendations of a Full Gold Standard

Of course, the world should eventually return to a full gold standard. A gold standard is needed now for the same reason that David Ricardo gave for it in 1817:

> Though it (paper money) has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin, or of bullion in that coin. . . . Experience, however, shows that neither a State nor a bank ever have had the unrestricted power of issuing paper money without abusing that power; in all States, therefore, the issue of paper money ought to be under some check and control; and none seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes either in gold coin or bullion.

A return to gold will involve some difficult but not insuperable problems, which we shall not attempt to discuss in detail here. The main immediate requirement is that individual countries stop increasing their paper money supplies.

But my topic here is the future of the dollar – not what it ought to be, but what it is likely to be. And I am obliged to say that the outlook for the dollar – or, for that matter, of national currencies anywhere – is hardly bright. The world's currencies will be what the world's politicians and bureaucrats make them. And the world's politicians and bureaucrats are still dominated everywhere by an inflationary ideology. Whatever they say publicly, whatever fair assurances they give, they still have a

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mania for inflation, domestic and international. They are convinced that inflation is necessary to maintain "full employment" and to continue "economic growth." They will probably continue to "fight" inflation only with false remedies, like "income policies" and price controls.

The International Monetary Fund is the central world factory of inflation. Nearly all the national bureaucrats in charge of it are determined to continue it. Having destroyed the remnants of the gold standard by printing too much paper money, they now propose to substitute Special Drawing Rights, or SDR's, for gold – in other words, they propose to print more international paper money to serve as the "reserves" behind still more issues of national paper monies. The first international step toward sound money, to repeat, would be to abolish the IMF entirely.

In August, 1973, the present American Secretary of the Treasury, George P. Schultz, named fourteen men as members of a new advisory committee on reform of the international monetary system. These included three former Treasury secretaries, all of whom pursued the very monetary policies that brought the United States and the world to its present crisis. The whole list of men in this committee included only two professional economists. I don't want to attack individuals, but to my knowledge not a single man appointed to the new panel believes in the gold standard, has ever advocated its restoration, or has ever spoken out in clear and unequivocal terms even against the chronic increase in paper money issues. But the climate of opinion is now such in the United States that I must confess I would find myself hard put to it to name as many as fourteen qualified Americans who could be counted on to recommend a sound international monetary reform.

The truth is that everybody is afraid of a return to sound money. Nobody in power wants to give up inflation altogether because he fears its abandonment would be followed by a recession. It's true that if we stopped inflation forthwith we might have a recession, for much the same reasons as a heroin addict, deprived of his drug, might suffer agonizing withdrawal symptoms. But such a recession, even if it came, would be a very minor and transient evil compared with the catastrophe toward which the world is now plunging.

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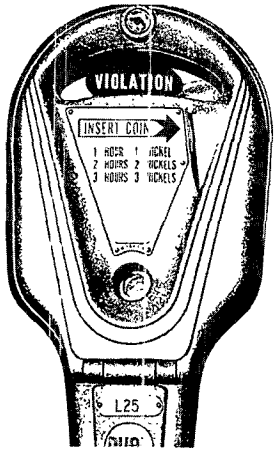
FREE PARKING... Space Not Available



GARY NORTH

"You can't get something for nothing," is about as safe a slogan as one could invent. Sometimes we get what turns out to be nothing for something, although we hadn't originally planned it that way. But sometimes "nothing" turns out to be something, and all kinds of problems appear if we fail to put a price tag on it.

One of these "nothings" is space. People want to get a piece of nothing in order to put something into it. This is a far greater problem in productive capitalistic societies than it is in underdeveloped nations. We have so many items around that we need space to house them. So the price of "nothing" – empty space – goes up.

One place where this space problem occurs is on the Hollywood Freeway at 5 p.m. Another is the Long Island Expressway, or as it is also known, the world's longest parking lot. Lots of drivers try to insert their cars into the available freeway space. And the "freer" the freeway, the worse the jam. Men are told that it costs them nothing extra to use the available space on the freeways; they find subsequently that there is greater demand for "nothing" than supply at zero price at 5 p.m. Even on the Eastern toll roads, the same problem occurs, since it always costs the same, day or night, to use the available space. There is no incentive to allocate the space economically. It costs three cents (or whatever) per mile at 5 p.m. or 7 p.m.

Parking space is another problem. Private firms have plenty of incentive to purchase space down-

Dr. North, economist, lecturer, author, currently is an associate of Chalcedon, an educational organization dedicated to Christian research and writing. His latest book is *An Introduction to Christian Economics*, Craig Press, 1973.

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town and allocate it according to the most efficient uses. It costs more to park in the heavily used business districts than in a suburban area. Men therefore have an incentive to plan wisely. If they want to pay less, they can go to work earlier, park farther away, and walk the extra distance, or ride the bus.

No Man's Lane

But some sections of a business district may be outside the private sphere's ability to allocate space rationally. I refer to the curb lanes of the city's streets. These are the property of the city government, not private citizens. There was a time in the past when the doctrine of "free" space led to the same sort of difficulties that the doctrine of "freeways" creates today. It was only when urban communities took a lesson from the free market that the problems diminished. Arnold Shapiro describes what happened:

> Parking a car downtown in most cities in 1935 made grown men cry — and curse. Practically all the spaces were occupied by the cars of store owners, their employees and several other all-day parking hogs. The shoppers fought over whatever was left and chaos prevailed.
>
> In Oklahoma City, the Chamber of Commerce turned for help to newspaper editor Carl McGee, who had achieved fame in the 1920's for uncovering the Teapot Dome scandal. He solved his city's parking problem by inventing one of America's most helpful but irksome gadgets: the parking meter.
>
> On a July morning in 1935, Oklahoma City drivers were confronted with 174 of McGee's Park-O-Meters. As an experiment, these four-foot-high mechanical cops were placed on one side of a few downtown streets. The contrast spelled success. On the unmetered sides, there continued to be confusion — cars jammed together and pushed in front of fire hydrants, fenders bent, and traffic stopped by motorists backing into cramped parking spaces.
>
> On the metered sides, there was order and room for every car to be parked. The price tag for this luxury? Five cents for an hour. [Which was plenty in 1935 Oklahoma City, Shapiro fails to mention.] When merchants on the unmetered sides realized that the meters helped business by keeping the flow of customers moving, they requested meters in front of their stores.[1]

Prices set by governments are only vague estimates. Other considerations besides profit must be considered, such as the political reaction to increased meter costs. The public streets are a monopoly, so it is not possible to measure economic value of the spaces di-

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1 Shapiro, "Meter Maids Show Their Mettle," *Westways* (October, 1973).

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rectly, since outside agencies are not allowed to enter the market to buy up the spaces. Thus, even at best, the meters are inefficient space-allocators. But when compared to the effects of "free goods" for one and all, there is no question which approach allocates more rationally.

Didn't the merchants in Oklahoma City realize that by parking their own cars on the streets they would reduce local business? Probably they did, or at least some individuals did. But if any one man does find other spaces for his car and his employees' cars, he only leaves a "free" space for the merchant across the street. It is very hard to organize all the local merchants, impose sanctions, and then keep out all-day nonshoppers (e.g., movie viewers) from taking the available spaces. But the simple addition of an allocating device, the parking meter, reduced the disorder.

A Pricing Problem

Today we are returning to the pre-1935 parking problem. Meter fares are probably too cheap in some areas. The allocation action is provided primarily by the inconvenience of having to return to the meter to deposit a fresh coin. Other devices must be added, such as chalk-marking of tires (in those regions that only allow one hour of parking, even with the nickel meter). Even the "no parking" signs, however, are really little more than expensive parking spaces: a $5 or $10 fine is imposed, which in downtown New York City may be cheaper than a local parking lot, especially if the city planners impose ceilings to the legal parking fees in private lots, or establish "quality-oriented" guild monopolies among the operators of the lots.[2]

If "nothing" is really something, but political authorities insist on charging nothing for it, there will be endless confusion, disruption, and waste. The fallacy of "nothing" for nothing is just another case of something for nothing. To avoid paying money for something valuable, we wind up paying plenty — in frayed nerves, bent bumpers, missed appointments, and so forth. In a culture that already drains us emotionally and physiologically, it seems far cheaper to pay enough money to get the things we need. It might even be a form of preventive medicine.

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[2] See Henry Manne's classic description, "The Parable of the Parking Lots," *The Public Interest*, No. 23 (Spring, 1971).

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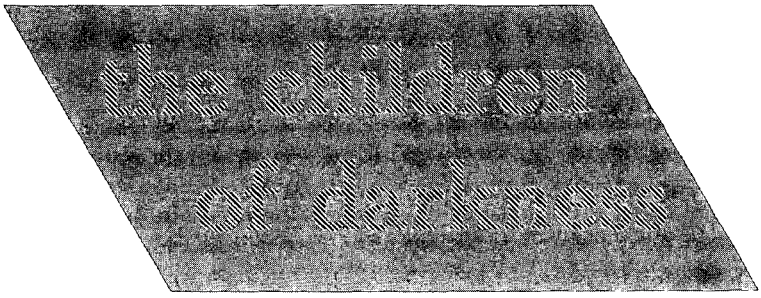

EVERY YEAR the Northfield, Illinois, publishers of *Who's Who Among American High School Students* issue a detailed response to a questionnaire which they circulate to a few thousand "high achievers" in the eleventh and twelfth secondary school grades. The 1972-73 annual survey is extremely encouraging; our seventeen-year-olders are now refusing to associate themselves with any of the hippie attitudes of the late Nineteen Sixties. The vast majority of the boys and girls who replied to the questionnaire indicated a good rapport with their families, said "no" to sexual promiscuity, and presented an overwhelming opposition not only to hard drugs but also to the marijuana cult. If and when they carry their attitudes on into college, we are likely to see an end to campus trashing, the forcible seizure of deans' offices, and the endless demonstrating and violent politicking that keeps serious students from paying attention to their books.

This is the more hopeful reading of the future. Surely Richard S. Wheeler, a former chief editorial writer for the *Oakland Tribune,* would like to endorse the idea that American adolescents are returning with some real conviction to our older and saner traditions. But, as Mr. Wheeler says in an epilogue to his *The Children of Darkness: Some Heretical Reflections on the Kid Cult* (Arlington House, $7.95), he can't quite believe there has been any

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fundamental change in the ideology governing the youth movement. The new calm, he says, is tactical. He very much fears that our so-called counterculture "remains stubbornly alienated." It would, he thinks, take a real religious movement among the young to change things much, but he doubts that such a movement is in the making. "Too many of the kids," he concludes ominously, "have a compact with the devil."

Permissive Adults

The truly interesting thing about Mr. Wheeler's book is that he blames the adult world for the kid "revolution" of the Sixties. What happened was that the children who were born in the years after World War II tumbled to the fact that their permissive parents didn't give a damn about much of anything. The parents were still living on the moral capital built up by their forebears who still held to the values of an individualism tempered by traditional Christianity. Underneath the correct behavior of the adult world the young sensed a complete lack of moral convictions. The hypocrisy of the adults provoked the counterculture. What the kids did in the Sixties was to act out the secret beliefs, or lack of beliefs, of their elders. The hidden nihilism of our world suddenly took on active and violent form.

The irony of the protest against regimentation by the "Establishment" is that it happened in the freest society the world has ever seen. What the kid culture failed to understand was that there was nothing to prevent each and every individual from achieving a personal salvation that might have transformed society without any "revolution." Here Mr. Wheeler zeroes in on the picture of the world presented to people who get their news from the TV screen. In Mr. Wheeler's opinion it was no accident that our "first television generation has turned out to be revolutionary."

A Negative Image

The image of America that comes over the tube is heavily negative. On TV, society is exploitative. Our capitalists have "raped" the continent (nēver mind that wood from our forests built millions of homes that have been adequately warmed by our oil and coal). Our blacks "are cannon fodder, and rich men sit upon the pile of their corpses." Nader's picture of our economic system is taken by the young TV-viewers as gospel: the consumer is represented as being cheated at every turn.

With calamity the daily TV fare, how could the first television

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generation know that the workaday American world goes smoothly enough even though our society has been failing in philosophic and religious conviction? The kids, untrained in the reading arts in a school system that does not know how to teach grammar, rhetoric and logic, are unable to catch a hint from the routine dividend reports on the financial pages, or the story about a golden wedding anniversary on the society page. Muckraking journalism, taking over the big broadcasting studios, sees the world as a seamless web of "problems," each more devastating than the one before.

Mr. Wheeler observes that, "thanks to the media," there is "no longer any spatial isolation or localization of interest" in what the young receive from our "democratized" reporting. Evil is everywhere, whether in Biafra, Vietnam or the American Appalachians. The TV camera turns everything into instant crisis. And so we have an obsession with politics: if Christianity has failed to solve our crises, the State must do what individuals, working in voluntary groupings, have been unable to accomplish.

Self-Betrayal

The kids, according to Mr. Wheeler, don't really believe that State action will change things. But if there is no God, some secular surrogate for the Deity must be found. So the kids play at a revolution which, if it should ever succeed, would hand things over to the socialistic modern liberals. Retreating to their communes or copping out by succumbing to the drug culture, the Flower Children don't make good material even for a Party of the Left. But in going along with the Leftist criticism of capitalism, the Flower Children have betrayed themselves. Liberal reform may have failed, but it is still thought of by the young as the only alternative to "repression."

The real trouble with the young, as Mr. Wheeler sees it, is that they are terrified by the "vast liberty of a permissive society." They are vaguely aware that they might become anything they choose, but it takes character to persist in learning a skill or acquiring the patience to wait for promotion in any hierarchical arrangement of society. Having been reared in an overprotective environment, the young have not had any chance of developing resilience and toughness.

Terrified Leaders

The gurus of the Sixties were all terrified creatures on their own. "Liberty," says Mr. Wheeler, "terrifies Herbert Marcuse . . . it

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appalls Tom Hayden and Mark Rudd . . . for those unprepared for it, liberty is the most frightful bomb ever to explode on the human psyche." The kids, in their rebellion, have actually hoped to encounter some frontiers of resistance from their elders. But they have had no such luck; society has become a spongy mass.

There will be no basic change in our situation without a spiritual revival. Mr. Wheeler thinks our Christian churches must "garrison themselves" to fight our secular liberalism that tries to turn responsibilities over to the State. The time may be soon at hand, he says, "when Christianity must retreat into the monastic life." But what if the kids continue to "have a compact with the devil"? Mr. Wheeler remains a pessimist: "the great rockfests are over," he says, "but the music lingers on."

▶ ABRAHAM LINCOLN – THEOLOGIAN OF AMERICAN ANGUISH by Elton Trueblood (New York: Harper & Row, 1973) 149 pp., $4.95 cloth.

Reviewed by W. Marshall Curtiss

DR. ELTON TRUEBLOOD, renowned Quaker theologian and professor at Earlham College, has written "another" book on Lincoln. He makes no apology for adding to the vast storehouse of writings about this great personage. He reminds us that Lord Tweedsmuir, in justification of another biography of Oliver Cromwell said: "Every student of the seventeenth century in England, must desire sooner or later to have his say about its greatest figure."

Of the American Experiment, Dr. Trueblood says: "We know who the greatest figure is and we cannot leave him alone. The next best thing to being great is to walk with the great."

Dr. Trueblood feels that in these troubled times, a walk with Lincoln is especially appropriate. Most particularly, he discusses Lincoln's religion. In his analysis of these complex aspects of Lincoln, the author, while aware of the voluminous writings about the man, relies largely on what Lincoln himself wrote. He did draw substantially on the writing of the late Reinhold Niebuhr.

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A few writers, recently, have attempted to pin the label "racist" on Lincoln. During the Lincoln-Douglas debates, it is said that Douglas suggested Lincoln's position would lead to intermarriage and the mixing of the races. Lincoln said: "There are white men enough to marry all the white women, and enough black men to marry all the black women, and in God's name, let them be so married." Those who would call this racism should read further, especially the Emancipation Proclamation.

Politically, Lincoln was a staunch believer that politics is the science of the possible. As a careful student of the American revolutionary times, he knew that the republic was founded in compromise. His mission, as he conceived it, was to preserve the republic – the American Experiment – at all cost. He saw slavery as one aspect of a greater problem. "My paramount object in this struggle is to save the Union and it is *not* either to save or destroy slavery. If I could save the Union without freeing *any* slave I would do it; and if I could save it by freeing some and leaving others alone, I would also do that."

This position, of course, did not endear Lincoln to extremists of either side. It led, no doubt, to the belief that a deeply religious man could not hold such views. But Lincoln believed that some degree of consensus was necessary if the Union was to be preserved. He emphasized this in his "House Divided" speech: "I believe this government cannot endure, permanently half *slave* and half *free*."

As the war wore on, Lincoln saw that if the Union was to be preserved, slavery must go. His Emancipation Proclamation was the culmination of his thinking in this area.

Trueblood's development of Lincoln's religious thinking is largely to show how it developed from early boyhood to mature adulthood. The fact that Lincoln never became a member of an organized church has led some to think of him as nonreligious. But Trueblood points out that only 23 per cent of the population were church members in 1860 compared with 60 per cent a century later.

An interesting sidelight on Lincoln's reaction to those who would have one big church instead of the divided condition of Protestantism and the fragmentation which then existed, is his reply to a visitor who lamented this situation. "The more sects we have the better. They are all getting somebody in, that others could not: and even with the numerous divisions we are all doing tolerably well." This might well be pondered by those

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who today advocate "one big conservative organization."

It will be recalled that Lincoln's education was based in large part on his early reading of the Bible. He could quote from it at length and it had great influence on his later speaking and writing. His was a religion of the Bible rather than of an organized church. Perhaps the most important aspect of his religion was that he was more concerned with knowing God's will than in seeking personal salvation. Trueblood says: "He could not abide the kind of a religion which made a man interested only in the salvation of his own soul without any reference to human injustice such as that of slavery." He was free of the self-righteousness that seemed to trouble the extreme idealists. "He differed from the fanatical moralists primarily in that he was always perplexed." Or, as we would say today, he didn't have all the answers.

In seeking to know God's will, Lincoln was aware that in the war, *somebody* was mistaken. He knew that Jefferson Davis was, like himself, a man of prayer. He knew that both sides prayed to the same God.

Grounds for skepticism over Lincoln's religion may have come from his youth when he delighted in debate and took either side of any argument. This may have led to the often quoted Herndon saying that Lincoln was an infidel. But to study his development, with deep religious experiences, makes it reasonably clear that Lincoln was a religious and compassionate man. His early years were lighthearted and his speech full of humor. Referring to his storytelling during a troublesome time in later years, he said: "If I couldn't tell these stories I would die." Trueblood tells us that the death of his four-year-old son Eddie in 1850 "sufficed to eliminate forever the lighthearted irreverence of his youth." "During his forty-nine months in the presidency, Abraham Lincoln issued nine separate calls to public penitence, fasting, prayer, and thanksgiving. Seen together they reveal with remarkable clarity both the growth and the depth of the man's inner life."

Students of freedom, limited government, and the voluntary society will be interested in Trueblood's reference to John Bright and his influence on Lincoln. It will be recalled that Bright joined Richard Cobden in 1841 in the Anti-Corn-Law League. Bright was an English Quaker, opposed to slavery and a strong opponent to England's recognition of the Confederacy. There was much Southern and Anti-Union sentiment in England at the time and John Bright was almost the only major

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statesman who supported Lincoln's firm policy. Bright did have the support of Queen Victoria and Prince Albert, all of which was of great importance to Lincoln.

As expected, Trueblood would include mention of important Quaker influences on Lincoln. John Bright was one; and another, perhaps even more influential in his later life, was Eliza P. Gurney. Mrs. Gurney was the widow of the famous English banker and Quaker minister, Joseph John Gurney.

Trueblood says that the Lincoln-Gurney letters – together with Lincoln's "Meditation on the Divine Will" – "provide a genuine introduction to the theme completed in the Second Inaugural." This address often has been called the greatest state paper of the nineteenth century and a theological classic.

Evidence of Lincoln's spiritual growth was a statement by Horace Greeley, editor of the New York *Tribune*. Greeley had been most critical and impatient with Lincoln in the early years of the war, but later wrote: "Never before, did one so constantly and visibly *grow* under the discipline of incessant cares, anxieties, and trials. The Lincoln of '62 was plainly a larger, broader, better man than he had been in '61; while '63 and '64 worked his continued and unabated growth in mental and moral stature."

Trueblood's little book is truly a refresher for those whose study of Lincoln has dimmed a bit over the years, as well as an introduction for those just starting their "walk with the great."

▸ UNDERSTANDING THE DOLLAR CRISIS by Percy L. Greaves, Jr. (Belmont, Mass. 02178: Western Islands) 302 pages, $7.

Reviewed by Henry Hazlitt

THIS BOOK consists of a series of seven lectures given by Professor Greaves in the Argentine in 1969. Yet it forms, in effect, a rounded economic text. The titles of the lectures sufficiently indicate their contents: 1. What Is Economics?, 2. The Role of Value in Human Action, 3. How Prices Are Determined, 4. The Effect of Wage Rate Interventions, 5. The Theory of Money, 6. The Cause of the 1929 Depression, and 7. The Evolution of the Present World Monetary Crisis.

There is a Foreword by the late Professor Ludwig von Mises. Percy Greaves has been for years a devoted student of Mises and does not profess to be doing much more than apply the principles of "Misesian" economics to some of the outstanding problems of our time. Yet, through his long years

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of study and thinking he has made these ideas his own.

In an autobiographical passage in his preface, he tells us how deeply he and his family suffered from the collapse and depression of 1929, how the gnawing question of what caused this depression set him off on a life-long quest for an acceptable answer, and how, at last, becoming aware of Ludwig von Mises and his teachings, he finally found answers that fully satisfied him as to the real causes of inflation, mass unemployment, and modern economic depressions.

The first four lectures are almost purely theoretical. They lay the groundwork for the last three, which deal largely with recent economic developments and future prospects. In this arrangement Mr. Greaves follows the practice of Böhm-Bawerk, the teacher of Mises, who once said: "I cannot profitably discuss the 'practical' side of the subject until there is complete clarity with respect to the theoretical side."

Readers of Mises and Böhm-Bawerk will find few surprises in the early chapters on the nature of economics, the role of value, and the determination of prices. They will, however, find the exposition simple, clear, and condensed. Mr. Greaves opens what he calls Part Two with his chapter on "The Theory of Money." In his Preface he has told us that "The study of money is at the apex of that mountain of human knowledge known as economics." His chapter justifies that description.

The theory he expounds is essentially that of Mises, but his presentation is lucid and concise without being oversimplified. It is a quantity theory of money, in the sense that it recognizes that whenever the quantity of money is increased, other things being equal, the value of each unit tends to fall (as with any other economic good). But this is not the crude mechanical quantity theory of money (espoused today by the so-called monetarists) which holds that a given increase in the quantity of money will produce the same proportional increase in "average prices." Greaves points out that the increases in commodity prices brought about by increases in the quantity of money are neither proportional nor uniform, nor do they occur all at the same time.

He exposes the fallacies in the idea that the value of money can somehow be kept constant by political manipulation. It is impossible in the nature of the case to maintain inflation indefinitely at a uniform rate. Inflation – the injection of new paper money into a society – can never provide more than, at best, a merely transitory

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stimulation. It adds no new wealth; it merely redistributes purchasing power, and can help some groups only at the expense of others. Inflation is never necessary: "The quantity of money available in any society is always sufficient to perform for everybody all the functions that money can perform." "A free market economy cannot permanently operate on a politically manipulated paper money standard. Free men need a market-selected money. Under present conditions, this means a gold standard."

The present writer is often asked by correspondents in what book or books they can learn most about economics. I have told them that the Mt. Everest of modern texts is Ludwig von Mises' *Human Action,* but I have had to warn them of the difficulties of the ascent, particularly for tyros. The problem has been to recommend a book or books that would most quickly prepare them to understand the Mises opus. I have often suggested Faustino Ballvé's little *Essentials of Economics,* which is excellent, but not long enough (126 pages). What has been lacking is a book of intermediate length to introduce readers to a full appreciation of the Misesian principles and insights. Professor Greaves' book, among its other merits, admirably meets this need.

▸ TWO CONCEPTS OF THE RULE OF LAW by Gottfried Dietze. (3520 Washington Boulevard, Indianapolis, Liberty Fund, Inc., 1973) 108 pages, Cloth, $5.00.

Reviewed by Ridgway K. Foley, Jr.

WHAT CONSTITUTES the essence and appropriate role of the state? How does man define justice? What is law; what is order; what is liberty; and, how do these concepts interrelate? Under what system or governmental structure can we secure maximum individual freedom and yet preserve the order necessary to avoid anarchy? What forces threaten liberty and orderliness today?

These and related inquiries have intrigued political philosophers and students of jurisprudence from the time of Plato. Now Gottfried Dietze, the distinguished scholar from Johns Hopkins University best known for his *In Defense of Property* published a decade ago, turns the light of his analysis and talents upon such heady questions in *Two Concepts of the Rule of Law.*

Encouraged and published by Liberty Fund, Inc., Professor Dietze's latest book consists, in the main, of two long essays: "The Just State and State Justice", composed in 1966, and "State Justice and the Just State", written from a vantage point five years later. Despite similarity of

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title, the two chapters examine similar poblems from divergent points of view, points of view induced if not impelled by events transpiring in the United States in the intervening years.

The author cogently observes "In today's Germany, constitutionalism is probably endangered as much by state impotence as by state omnipotence." (pages 92-93). While he directs a warning to the Bonn regime, his analysis, writ large, should be heeded by all nationalities. Indeed, this sentence summarizes the entire book: constitutional government, the nineteenth century structural hope for securing personal liberty, faces a dual threat, an ever-expanding welfare state and an omnipotent permissive state.

The Encroaching State

In Chapter I, "The Just State and State Justice," Professor Dietze lays bare the threat of the enveloping state, ever intruding more deeply into the lives of its citizens. Although he displays no particular commitment to libertarianism (and indeed seems a captive of Germanic traditionalism), we know from his magnificent *In Defense of Property* where his instincts rest. Yet in this chapter, the writer seems to seek an orderly balance in which essential law will preserve and protect the individual without despotism. If, by this, Professor Dietze means that government should maintain and enforce rules which inhibit and deter individuals from coercing and defrauding other members of society, and should provide for the orderly settlement of disputes, I would certainly agree. If he suggests some greater range to the appropriate state power, particularly in his disturbing use of noncontential phrases such as "liberal bill of rights" and a "social bill of rights" (see page 44), I must respectfully disagree.

Perhaps the lack of clarity emanates from Professor Dietze's posture as a scholar and a scientist. He treats difficult questions objectively, acting as a value-free investigator for the most part. This we must cheer after myriad liberal "social scientists" assault our senses with unscientific and loaded conclusions.

In any event, the first chapter considers the seed of tyranny existent in a liberal Law State, tracing the alteration of Germany from its nineteenth century tradition through the Weimar Republic and the rise of the Third Reich. Although the lesson is not a new one, the author offers valuable insight into the *theoretical* underpinnings which made possible such a development. Ideas have consequences, and it becomes impera-

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tive to learn what malevolent or benevolent ideas contributed to the rise of an Adolf Hitler so that, hopefully, such a cataclysmic event might be avoided in the future.

After the Riots

Professor Dietze wrote Chapter II, "State Justice and the Just State," in 1971, after viewing the riots, the violent demonstrations, the confrontations, the hijackings, and the general licentiousness of the later 1960's. These events obviously took their toll and colored his thinking, for in this essay the author expresses concern about the survival of constitutional government (in the original liberal tradition) in an age dominated by the permissive state. He bleakly forecasts the future when he remarks:

> As long as there are human communities and states, there will be State Law. On the other hand, the future of the Just State is less clear. As a result of its formalization, that state can be inverted and annihilated by State Law. Considering the substantive evolution of that law as the concretization of political decisions, the survival of constitutional government appears to be doubtful. It is true that, by means of State Law, constitutionalist idealists, with varying success, again and again have tried to create, even under the most adverse conditions, institutions which approach their ideal. However, welcome as these attempts may have been for combating the threat to constitutional government from the power of the state, their all too permissive conception often brought with them a laxity which overlooked the importance of the law for constitutional government and thus endangered the latter through state impotence. (page 92)

Chapter II deals with a very real threat, one which perplexes many of us who live in this unsettled age. On the one hand, all manner of regulations impede the release of creative energy by the individual: the Law State. On the other hand, government, for all of its monopoly of organized force, seems wholly unable to cope with bandits and terrorists in our midst who deprive their neighbors of life and property and who absolutely defy any rules of law or common morality: the Permissive State. The murders at Munich, the behavior of the Chicago Seven, the Soledad Brothers affair, the Black Panther police snipings, all reveal on utter indifference to an orderly society, a vital threat to creative citizens, and an almost complete inability of organized government to cope with persons who operate outside of a moral consensus.

Two Concepts of the Rule of Law makes one hunger for a more intense analysis of the interrela-

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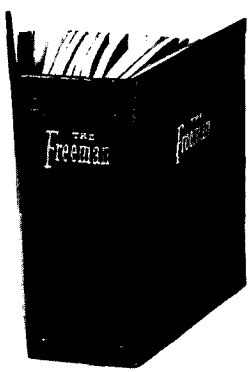
tionship of freedom and order. Can we anticipate a natural concatenation of the creative energies of the millions of individuals who make up the modern state, or are collisions between personal desires and drives which can only be determined by the state inevitable? I rather believe the former but would welcome Professor Dietze's consideration of the subject together with a specific look at some of the apparent person-to-person conflicts "solved" by the modern state. In summary, the author says a great deal in a short span but, by virtue of the nature of his subject, he leaves much unsaid.

A word of warning to the unwary reader: do not expect a fast and easy track. This man writes for the person who *thinks* about knotty problems. The author assumes a knowledge of history, of law, and of philosophy on the part of his reader. More than that, he demands that his reader think and participate in the scholarly endeavor. One who bears with Professor Dietze and who brings his own insights along on the journey will be amply rewarded.



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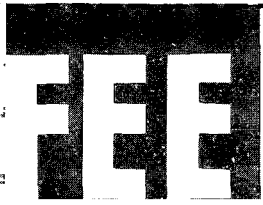

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